

Abstract

This paper investigates the effects of Foreign Direct Investment (FDI) on domestic investment in Central and Eastern European (CEE) countries, while also exploring the significance of the geographical origins of such investments. Employing dynamic panel data methods GMM and two-stage least squares analysis for data spanning from 2004 to 2022, this study reveals a composite interaction between FDI and domestic investment. Additionally, the long-term effects of FDI vary significantly depending on its source region. Specifically, the overall investigation into CEE indicates both short-term crowding-out effects and long-term crowding-in effects of FDI inflows on local investment. When the source of FDI is considered, the findings suggest that investments from some regions stimulate domestic investment in the long run, while investments from other regions may supplant it. Moreover, the long-term impacts of FDI from different sources vary across CEE countries. The results of this study provide valuable insights for policymakers in CEE countries aiming to optimize the flow of foreign direct investment to foster economic growth and development, thus contributing to the existing literature.