

## Abstract

# Determinants of Low Capital Inflows Volatility in Croatia

RESEARCH PAPER

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The first part of the paper investigates whether there have been significant differences in the levels of volatility of foreign capital inflows in Croatia in relation to ten comparable post-transition European countries over the past fifteen years. According to volatility indicators (standard deviation, coefficient of variation, volatility index), capital inflows in Croatia have been less volatile, than in other post-transition countries in the observed period. In the second part of the paper it is empirically tested whether such low volatility of Croatian capital inflows can be attributed to the differences in economic fundamentals between Croatia and other selected countries. The results of the econometric model point to the conclusion that the difference in volatility of capital inflows can be explained by the differences in the GDP growth rates, inflation rates, movements in the stock market as well as by the differences in the amount of international reserves and the openness of the economy between Croatia and other post-transition countries. The paper contributes to the existing body of literature by confirming that macroeconomic stability and positive economic developments lead to more stable capital inflows.

**Keywords:** capital inflows volatility, volatility index, post-transition countries, Croatia

**JEL classification:** F21, F30, F32

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