

## FOREIGN DIRECT INVESTMENTS – THE MAIN FACTORS IN THE CATCHING-UP PROCESS OF EASTERN-EUROPEAN COUNTRIES

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**Abstract:** *After their transformation into market economies at the end of the 1980s, due to the inflow of foreign direct investment Eastern European countries started a catching-up process to close their development gap with the more developed Western-European countries. The convergence process was significantly advanced when these countries joined the EU, as the advantages of the single market attracted even more capital into the region. Paradoxically, gaining full access to the funds of cohesion policy did not result in accelerated convergence. On the contrary, its rate remained moderate even after the 2007-2009 crisis. The present article examines the situation due to which cohesion policy can take credit for the achievements of the convergence process, even though its contribution to the developments is questionable.*

*Using the method of time series analysis, the article also shows that the expansive regulatory system that enables the utilization of EU subsidies cannot reproduce the returns*

*that are naturally achieved with private investments. Furthermore, nor it is able to sufficiently elicit the positive external effects which, in the event of market failures, could justify the disbursement of subsidies. The article also discusses that the dependence of the Eastern European member states' economic growth on subsidy payments varies. Moreover, it states that the disbursing institutions are also operating with different levels of efficiency.*

**Key words:** *Foreign direct investment, Cohesion policy, Catching-up process, Eastern-European countries*

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