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contents

Articles

- Tourism Development in Nigeria: Implications for Economic Growth and Diversification**
SEGUN SUBAIR AWODE 7
- Missed Payments, Renegotiations, and Household Consumption**
KYRIAKI G. LOUKA, NEKTARIOS A. MICHAIL 31
- Entrepreneurship Education for Migrants as a path to Social Inclusion: The Case of Southeastern Europe**
MARIA SOTIRAKOGLU, SOFIA BOUTSIOUKI, KATERINA SARRI 51
- A Literature Review on the Relationship Between Foreign Direct Investment and Economic Growth in Balkan Countries**
ARMIRA LAZAJ 67

aim and scope of

ASECU was founded in 1996 as Association of South-Eastern Europe Economic Universities with the general aim of promoting the interests of those economic universities in South-Eastern Europe which are public, recognized or financed by the state of origin.

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TOURISM DEVELOPMENT IN NIGERIA: IMPLICATIONS FOR ECONOMIC GROWTH AND DIVERSIFICATION

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Abstract

This study explored the potentials of the Nigerian tourism sector for economic growth and economic diversification. The study employed annual secondary data covering the period between 1995 and 2019, analysed using both descriptive and econometric approaches. Results showed that the performance of the tourism sector in Nigeria has been unimpressive but potentials abound. Security, electricity and air transport infrastructure were found to be positive determinants of tourism development, while a growth-led tourism development hypothesis was confirmed for Nigeria. The findings are compelling to suggest that investing in Nigeria's economic growth could be the first step in stimulating tourism development.

JEL Classification: F43, L83, O40, Z32

Keywords: Tourism Development, Economic Growth, Economic Diversification, Nigeria

Introduction

The importance of the tourism sector in spurring growth towards achieving the economic diversification challenge faced by developing countries and emerging markets, especially those rich in natural resources, is gaining momentum. This is a result of the capacities of the sector to generate employment and revenue and positively contribute to infrastructural development and overall economic growth (Ali *et al.*, 2018). Resource-rich countries have a long history of strong dependence on a narrow range of commodity resources as the driver of economic activities and the source of foreign exchange earnings. Nigeria, for instance, has long concentrated on crude oil, as the main source of revenue generation and the principal component of total exports. Consequently, its economy has been highly susceptible to both internal and external shocks of vandalization of oil pipes, which limits production capacity, and reduction in oil prices at the international market, respectively. This concentration on a narrow range of export products and structural stagnation have been linked with fiscal policy procyclicality (Ouedraogo & Sourouema, 2018) and jobless economic growth (Oyejide, Ogunkola & Bankole, 2019).

Economic growth has traditionally been associated with advances in agricultural and manufacturing sectors including foreign capital inflows, which is undermining the prospects of tourism in generating economic growth (Papatheodorou, 1999), which has attracted the interests of scholars and policymakers across the globe. However, today, the tourism sector has not just become one of the world's fastest-growing sectors but has also turned out to be one of the prime sectors capable of spurring overall economic growth and engendering economic diversification. The tourism sector is a dynamic one and has been acknowledged as a sunrise sector capable of transforming the growth trajectory of an economy and switching it on for sound and inclusive growth (ADB, 2018). The sector, thought to be hypersensitive to shocks, has continued to witness sustained growth despite occasional shocks of global violence and terrorism, political uprisings, health pandemics and other natural disasters, signifying its strength and resilience.

Furthermore, the positive influence of tourism activities in stimulating growth has been widely established in relevant literature through the tourism-led growth hypothesis (TLGH), which is an offshoot of the export-led growth hypothesis that growth in an economy is not just a function of technology and human capital development, but also depends on the promotion of exports. Therefore, studies have not just established the positive growth effect of tourism (Balaguer & Cantavella-Jorda, 2002; Ohlan, 2017), but have also identified channels through which tourism positively impacts growth. Accordingly, tourism stimulates the growth of an economy through stimulating infrastructural and human capital investment (Seetanah *et al.*, 2011; Jovanovic & Illic, 2016; Miloradov & Eidlina, 2018), generating foreign exchange reserves to be invested in technology in the production process (McKinnon, 1964),

positive spill-over effects on industrial development (Cernat & Gourdon, 2012), employment generation and poverty reduction (Jamieson, Goodwin and Edmunds, 2004; Bolwell & Weinz, 2008; Lee & Chang, 2008), creation of positive externalities (Weng & Wang, 2004; Wu, 2017) and provision of opportunities for diversifying countries' export earnings away from primary products (Signe and Johnson, 2018).

In pursuit of regional and global agendas such as the African Union Agenda 2063, the African Continental Free Trade Agreement (AfCFTA) and Sustainable Development Goals (SDGs), countries are fast realizing the huge potential of tourism activities in driving the economy and giant strides are being made in the development of and investment in the sector. This is evident in the fact that the tourism sector was the world's third leading sector in foreign trade in 2018, contributing 10.4% to global GDP, trailing behind chemicals and fuels but ahead of automotive products, accounting for 30% of global service exports (UNWTO, 2019). For the seventh consecutive year, global tourism exports have outgrown merchandise exports, helping to reduce trade deficits in many countries. The sector, apart from forming linkages with other sectors, such as entertainment, transportation and housing, also contributes significantly to employment generation, providing one in ten (10%) of all jobs globally. Besides, the 2030 projections of the sector indicate that it is expected to continue growing rapidly, through consistent increase in global tourist arrivals, which stood at 1.4 billion in 2018, and forecasted to reach 1.8 billion by 2030, representing a forecast of 3.3% yearly growth (UNWTO, 2019). This clearly illustrates the growing size of the global tourist market.

Although the global tourist market is still dominated by rich countries, such as France, Spain and USA, the share of African and other developing countries in international tourist arrivals and receipts is experiencing rapid growth (UNWTO, 2019). For instance, international tourist arrivals in Africa in 2018 totalled 67 million (7% growth)¹, generating international tourism receipts of about \$38 billion (2% growth) and contributing about 8.1% to the total GDP on the continent (UNWTO, 2019; WTTC, 2019). The rapidly growing tourism sector in Africa could be attributed to the continent's strategic intervention in the sector through the Tourism Action Plan (TAP)² adopted in 2004, which was a strategy for ensuring sustainable tourism on the continent. The TAP recognises tourism as one of the priority sectors for catalysing growth and development on the continent and, thus, intended to turn Africa into tourists' choice destination.

1. in comparison to the preceding year.

2. The NEPAD Tourism Action Plan, retrieved from https://au.int/sites/default/files/documents/36068-doc-2017_nepad_proposed_tourism_work_plan.pdf

Having realized the fact that tourism is one of the drivers of growth on the continent, most African countries have been drafting strategic plans and policy documents for the revival and development of their respective tourism sectors. Nigeria, for instance, has developed a Vision 2025 action plan, anchored by the Nigerian Tourism Development Corporation (NTDC)³, as a roadmap towards opening up the country as a major tourists' choice destination in Africa through the promotion of domestic tourism and development of international tourism. Interestingly, the Nigerian tourism Vision 2025 strategy focuses more on promoting domestic tourism. This is not surprising because domestic tourism spending has always accounted for the largest share of the country's tourism receipts (as indicated in Figure 1). In 2016, domestic tourism spending also generated 93.2% of direct tourism and travel GDP, while international tourism receipts accounted for the remaining 6.8% (WTTC, 2018).

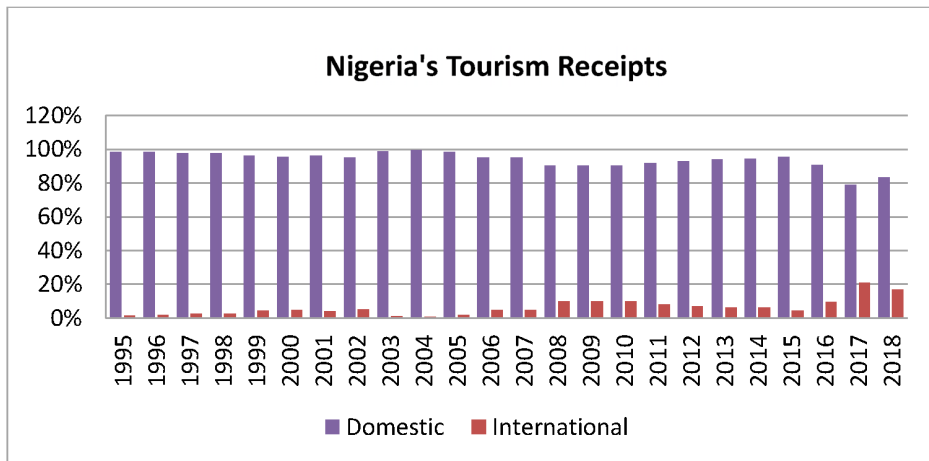


Figure 1. Share of Nigeria's Tourism Receipts

Source: World Travel and Tourism Council (WTTC)

While the tourism industry in Africa remains underdeveloped, in comparison with other regions, the Nigerian tourism sector also lags behind some other African countries in terms of both international tourist arrivals and receipts. Although the Nigerian tourism sector recorded 126% growth in international arrivals in 2016, Africa's most preferred destinations are Egypt, Kenya, Morocco, South Africa and Tunisia (ADB, 2018). However, because international tourists are increasingly interested in visiting developing countries as tourists, in addition to Nigeria's wealth of natural resources, cultural heritage and a continuously growing entertainment industry that is making waves across global charts, the country's tourism sector has substantial potential to be one of the leading sectors to spur growth and stimulate economic diversification, especially in the face of dwindling oil prices in the international market.

3. <https://www.tournigeria.gov.ng/vision.2025.php>

The Nigerian economy has witnessed two recessions in the last five years, specifically in 2016 and 2020, due to huge drops in global oil prices, which is the major source of foreign exchange earnings for the government. Having recovered from both recessions, the Nigerian economy is on a quest for economic diversification in a bid to achieve sustainable growth and development. Indeed, diversifying the structure of the Nigerian economy has long been a major objective of successive governments since the country's return to democratic rule, as evidenced by economic blueprints such as the National Economic Empowerment and Development Strategy (NEEDS)⁴, the 7-point Agenda⁵, Vision 20:2020⁶ and the ERGP⁷; yet, the country still runs an oil-and-gas sector-led economy, generating over 90% of its foreign exchange earnings (Oyejide *et al.*, 2019). Hence, the country is faced with the daunting challenge of identifying other sectors capable of generating foreign exchange earnings to boost economic growth and spur economic diversification.

In an attempt to explore the potentials of tourism as a viable sector for achieving economic growth and economic diversification, it becomes imperative to determine the factors debilitating the development of the sector in Nigeria. The Nigerian government, through the Nigerian Immigration Service, has launched a visa-on-arrival policy for short visits to passport holders of African Union member-states, which is supposed to be a boost for the tourism sector in attracting international tourists, especially from Africa. However, the low performance of the sector suggests there could be other factors hindering its growth. Unravelling this would help direct the plans and actions of policymakers in resolving the challenges encountered in tourism development in Nigeria.

Thus, this study seeks to assess the potentials of the tourism sector in achieving economic diversification in Nigeria. The study analyses the performance of the country's tourism sector, unravels factors debilitating its development and establishes the nature of the tourism-growth nexus in Nigeria. Having introduced the study in this section, the next section focuses on review of literature on tourism development and economic growth, section 3 describes the data and methodology, section 4 presents and discusses the findings, and section 5 concludes.

4. <https://www.cbn.gov.ng/out/publications/communique/guidelines/rd/2004/needs.pdf>

5. https://www.nigeriahc.org.uk/pdf/seven_point_agenda.pdf

6. https://www.nigerianstat.gov.ng/pdfuploads/Abridged_Version_of_Nigeria%20Vision%202020.pdf

7. <https://www.nipc.gov.ng/product/nigerias-economic-recovery-and-growth-plan-erg-for-2017-2020/>

Literature Review

The growth-effect of tourism has been a widely discussed issue in relevant literature. This has popularized the tourism-led growth hypothesis, which derives from the export-led growth hypothesis. Studies have examined the growth effects of tourism in several countries and regions using time series and panel data econometric techniques and found a growth-inducing role of tourism, thus making the TLGH one of the most widely accepted hypotheses in the literature of tourism economics (Santamaria & Filis, 2019). This strand of literature has grown immensely, especially after the study of Balaguer and Cantavella-Jorda (2002), which found conclusive evidence of a tourism-induced growth hypothesis in Spain.

Proenca and Soukiaziz (2008) examined the impact of tourism on living standards in Spain, Portugal, Italy and Greece using conditional convergence and panel regression approaches to analyse annual data from 1990 to 2004. The study found strong evidence in support of tourism as a determinant of living standards in these European countries. Soukiaziz and Proenca (2008) also explored country-specific evidence for the tourism-growth nexus using housing capacity and income level as proxies for tourism and economic growth, respectively. Using different econometric methods, such as generalized method of moments (GMM) as well as fixed and random effects to analyse data from 1993-2001, findings lend support for the TLGH in Portugal.

Figini and Vici (2009) examined the tourism-growth association in a panel of over 150 countries using econometric methods to analyse data spanning the period 1980 to 2005. The major finding of the study showed that the growth rate of tourism-based countries was not higher than that of their non-tourism-based counterparts except during the 1980s when tourism specialisation explained the growth of small countries, thereby refuting the TLGH.

Ayeni and Ebohon (2012) examined the potential for sustainable tourism in Nigeria and its impacts on the wider economy through a case-study analysis of three tourist centres in Ondo State. The study employed qualitative methods and found huge potential for tourism development in Nigeria, which are yet to be explored.

Seghir *et al.* (2015) examined the direction of the tourism-growth causal nexus in a panel of 49 countries. The study used panel cointegration and Granger causality techniques and their results confirmed the existence of long-run cointegration and two-way causality between tourism and economic growth.

Agri, Acha and Lucy (2016) examined the potential impact of tourism on the Nigerian economy using descriptive statistics to analyse its impact on key macroeconomic variables. The study found a direct impact of tourism on employment, infrastructure and standard of living and a direct linkage between tourism, the environment and the domestic economy, albeit with untapped potential.

Ohlan (2017) investigated the tourism-growth nexus in India controlling for the influence of financial development. The study used the Bayer and Hanck combined

cointegration test to analyse data from 1960 to 2014. The results of the study confirmed a positive growth effect of international tourism and a uni-directional causality that runs from tourism to economic growth, confirming the TLGH for India.

Habibi, Rahmati and Karimi (2018) employed a growth decomposition method to decompose economic growth across industries in Iran and assessed how tourism contributed to the economy between 2005 and 2014. Results showed that tourism is growth-enhancing, confirming the TLGH for Iran.

Fahimi *et al.*, (2018) examined the nature of causal nexus among tourism, human capital development and economic growth using the panel Granger causality test to analyse panel data from 1995-2015 for 10 small states. The study found evidence of tourism-led growth, tourism-led human capital development and human capital development-led growth.

Sokhanvar (2019) examined whether FDI promotes tourism and economic growth in seven EU countries with a significant share of tourism receipts and FDI inflows. Using the impulse response function to support the Block Exogeneity Wald test, the results showed a negative impact of FDI on growth in five of the countries, and that FDI does not promote tourism growth in any of the countries sampled. This could stem from the fact that the study considered overall FDI impact on tourism rather than tourism sector-specific FDI.

Santamaria & Filis, (2019) made a significant attempt to shift the direction of studies in the tourism economics literature by examining the dynamic relationship between tourism development and expected (rather than current) macroeconomic conditions. Rather than using the current GDP level as a measure of macroeconomic condition, the study used the term structure of interest rate while using the number of international tourist arrivals as a proxy for tourism development. A DCC-GARCH model was used to analyse monthly data from January 1998 to June 2017, and findings revealed a time-varying relationship between tourism growth and expected economic conditions, affected by business cycles as well as geopolitical and economic events. These authors' result is similar to that found by Antonakakis, Dragouni and Filis (2015) in their study of the dynamic linkage between tourism and economic growth using the spillover index technique to analyse monthly data for 10 EU countries between 1995 and 2012. The latter group's results indicated that the tourism-growth relationship is not stable over time and it is business-cycle dependent.

Liu and Wu (2019) examined the transmission mechanism between tourism productivity and economic growth in Spain using Bayesian Dynamic Stochastic General Equilibrium. While their results affirm a growth-inducing effect of tourism, simulation results suggest that increased productivity in the overall economy will improve foreign, more than domestic, tourism demand while a developed tourism sector will improve domestic tourism more than inbound tourism.

Although findings from these studies have maintained that tourism positively impacts economic growth, controversy still surrounds patterns of causal relations be-

tween tourism and economic growth. While some studies found that tourism impacts growth, others found that it is economic growth that affects tourism development fuelling the emergence of a growth-led tourism hypothesis (GLTH) (Oh, 2005; Payne & Mervar, 2010; Lee 2012). Due to the debate on both tourism-led growth and growth-induced tourism, it is still unclear whether it is tourism expansion that promotes growth or a growing economy that driving tourism development. Ideally, while tourism can be growth-enhancing through its direct, indirect and induced benefits, a growing economy is important to engender domestic and foreign private investment to propel tourism sector growth. This is an interesting area of research that this study intends to establish for Nigeria, as the nature of the tourism-growth nexus for Nigeria would be a useful tool for reviewing the progress of the Vision 2025 policy objective in the Nigerian tourism sector and for formulating new tourism policies.

Furthermore, proxies for tourism development commonly used in the literature are the number of international tourist arrivals and international tourism receipts. The latter simply refer to spending on the local economy by inbound visitors including expenditures on transport, food and drinks, entertainment, shopping, etc. Proponents of tourism receipts have argued that increasing rates of tourist arrivals do not always translate to increasing tourism earnings as not all tourist arrivals are real tourists (Tang & Tan, 2015; Sokhanvar, 2019). This claim is statistically supported as USA ranked third in 2018 by number of international tourist arrivals with 80 million, but was the highest tourism earner in the same year with \$214 billion (UNWTO, 2019). France, on the other hand, which claimed the highest number of arrivals, with 89 million, only made \$67 billion in international tourism earnings (UNWTO, 2019). However, because of the peculiarity of the Nigerian tourism sector, where domestic tourism accounts for most of tourism earnings, international tourism receipts alone do not seem to be a good measure for tourism development. Instead, a combination of both domestic and international tourism receipts to measure tourism development could be more appropriate.

It is important to point out that empirical evidence from Nigeria on the tourism-growth nexus is scarce. Some of the existing studies on tourism development in Nigeria focused on its potential impact on socio-economic development. Some are perception-based, while others explored the subject matter through a narrow lens focusing only on certain location in the country. Most of these studies are in agreement that the Nigerian tourism industry has a lot of potentials to positively contribute to the economy but these remain largely untapped (Ayeni & Ebohon, 2012; Agri *et al.*, 2016; Eyisi *et al.*, 2021). Although Ighodaro and Adegboye (2020) also explored the impact of tourism on economic growth in Nigeria and reported a tourism-led growth hypothesis, we find their usage of capital investment in the tourism sector inadequate as a measure of tourism development. Capital investment is an input into the tourism sector, whereas it is the output of the sector (either in terms of the number of international tourist arrivals or tourism revenues) that reflects the performance of the sector.

Methodology and Data

Conceptual Framework

The focus of this study is to explore the potential of the tourism sector as a driver of economic growth toward engendering economic diversification in Nigeria. As such, the study intends to examine the determinants of tourism development, as well as the nexus between tourism and economic growth. The flowchart presented in Figure 2 describes how these concepts are linked.

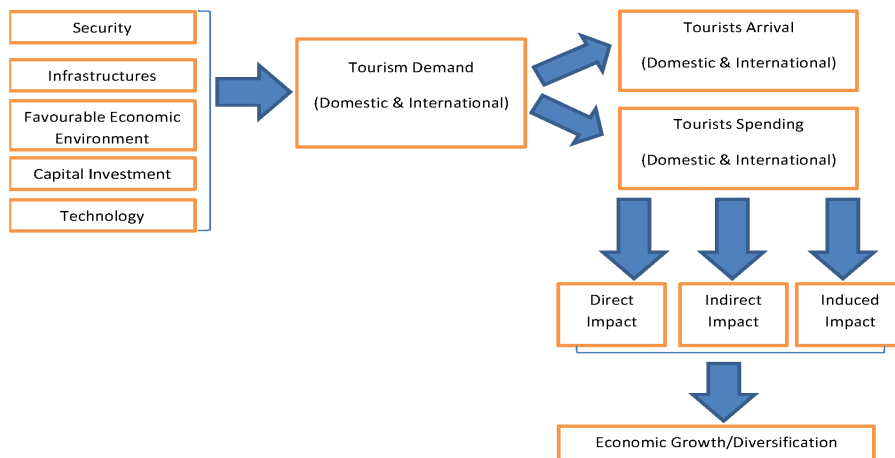


Figure 2. Conceptual Framework of Tourism and Economic Growth

Source: Adapted from WTTC, 2019 and Signe and Johnson (2018) and modified

Figure 2 shows the drivers of tourism development and describes how tourism engenders economic growth and economic diversification. Infrastructural development, a strong security system, a favourable economic climate and technological advancement are key factors determining tourism development (Signe and Johnson, 2018). When tourism goods are high in demand, tourists' arrivals and spending increase, and this, in turn, has spillover effects on the local economy through its direct, indirect and induced impacts, thereby increasing revenue for the government as well as private firms involved in tourism activities and creating employment opportunities while contributing to economic growth.

Model Specification

In order to examine the determinants of tourism development, the specification follows the conceptual framework, which was motivated by Signe and Johnson (2018) as shown in equation (1):

$$TOUR = f(SEC, INV, INFRA, EE, CAPEX) \quad (1)$$

The variable *INFRA* denoting infrastructure is decomposed into electricity and air transport infrastructure, and the impact of capital expenditures was controlled for. Thus, this can be expressed in econometric form as shown in equation (2):

$$TOUR = \alpha_0 + \alpha_1 SEC + \alpha_2 INV + \alpha_3 ELECT + \alpha_4 AIR + \alpha_5 EE + \alpha_6 CAPEX + \varepsilon \quad (2)$$

Where *TOUR* represents tourism development, *SEC* represents security, *INV* stands for tourism investment, *ELECT* is electricity, *AIR* represents air transport infrastructure, *CAPEX* is capital expenditures and *EE* denotes economic environment.

Equation (2), therefore, represents the equation to be estimated for examining the determinants of tourism development in Nigeria.

For the tourism-growth nexus equation, the study shall employ the pairwise Granger causality test to determine the direction of the causal nexus between tourism development and economic growth.

Hence, the Granger causality model is specified thus:

$$EG_t = \sum_{i=1}^m \alpha_i EG_{t-i} + \sum_{j=1}^n \delta_j TOUR_{t-j} + \varepsilon_{1t} \quad (3)$$

$$TOUR_t = \sum_{i=1}^m \gamma_i EG_{t-i} + \sum_{j=1}^n \psi_j TOUR_{t-j} + \varepsilon_{2t} \quad (4)$$

Where *EG* is economic growth (real GDP) and *TOUR* is tourism development. ε_{1t} and ε_{2t} are the disturbances, assumed to be uncorrelated.

To achieve the objectives stated, the study employed descriptive and econometric approaches. Specifically; the performance of the tourism sector in Nigeria, in terms of its contribution to employment and growth, was analysed using charts and graphs; the Fully Modified Ordinary Least Square (FMOLS) technique was used to examine the determinants of tourism development following the result of the unit root test, while the Granger causality test was used to explore the nature of the tourism-growth nexus in Nigeria

Data

The data used in the study were from secondary sources. Tourism development was measured using total (and not just international) tourism receipts gotten from World Travel and Tourism Council (WTTC)⁸. This is due to the peculiarity of the Nigerian

8. Due to unavailability of domestically-collected tourism data in Nigeria, these were obtained on request from the WTTC.

tourism sector, where domestic tourism generates a larger share of tourism earnings. Tourism investment data were also sourced from WTTC. Capital expenditure was proxied using total federal government capital expenditure was collected from the Central Bank of Nigeria (CBN) Statistical Bulletin. Data on security, measured using the likelihood of political instability and politically-motivated violence, were from World Governance Indicator. The economic environment was measured using the annual growth rate of real gross domestic product sourced from the National Bureau of Statistics in Nigeria. Data on air transport infrastructure and electricity were gotten from World Bank Development Indicators, the former being registered carrier departures and the latter being electric power consumption. All data are in annual series covering the period between 1995 and 2019. The choice of this timeframe was due to data availability, especially concerning the major variable of interest, i.e., tourism receipts (domestic and international), from the WTTC.

Results

Performance of the tourism sector in Nigeria

The contribution of tourism to employment in Nigeria is displayed in Figure 3, showing both direct and total contributions of the sector to employment generation. The first panel of the figure showing the direct contribution of the sector employment indicates that the sector has been providing thousands of direct jobs since 1995. The figure revealed that the sector provided 371,000 jobs in 1995, representing its lowest number of jobs provided to date. In 2017, over one million jobs were directly provided by the sector, representing its highest number of jobs provided. However, while the number of jobs provided by the sector has steadily increased since 1995, the sector's direct jobs in the share of total employment are still negligible at less than 2%.

The sector's total (direct and indirect) contribution to employment is displayed in the lower panel of Figure 3, which shows a significant contribution of tourism to employment generation in Nigeria, especially through its linkages with other sectors, such as transport and housing. In 1990, the sector's total contribution to employment stood at about 1.2 million jobs in 1995, which tripled by 2008 and stood at 3.35 million jobs in 2019. As a share of total jobs, the sector's total contribution was just 2% in 1995 and tripled to 6% in 2008, but continued falling until it declined to 3.1% in 2011. However, it started rapidly rising again in 2012 and reached 4.7% in 2019.

Figure 4 presents the trend of tourism contribution to GDP in Nigeria from 1995 to 2019. While the upper panel of the chart relates to the sector's direct contribution, the lower panel displays the total (direct and indirect) contribution of the tourism sector to GDP. The chart revealed that the direct input of the tourism sector to GDP has witnessed oscillation over the period under review, which explains the sensitivity of the sector to shocks. However, as the chart shows, every drop is immediately followed

by a rise except between 2008 and 2010, when the sector witnessed consecutive drops in its contribution to the GDP. This explains the strength and resilience of the sector to recover from negative shocks, which could be aided by enabling economic environment and government policy. Meanwhile, the sector has not significantly contributed directly to Nigeria’s GDP, as shown in the chart. The direct contribution of the sector to GDP, at less than 2%, is very low and this places the sector among the least performing sectors in Nigeria.

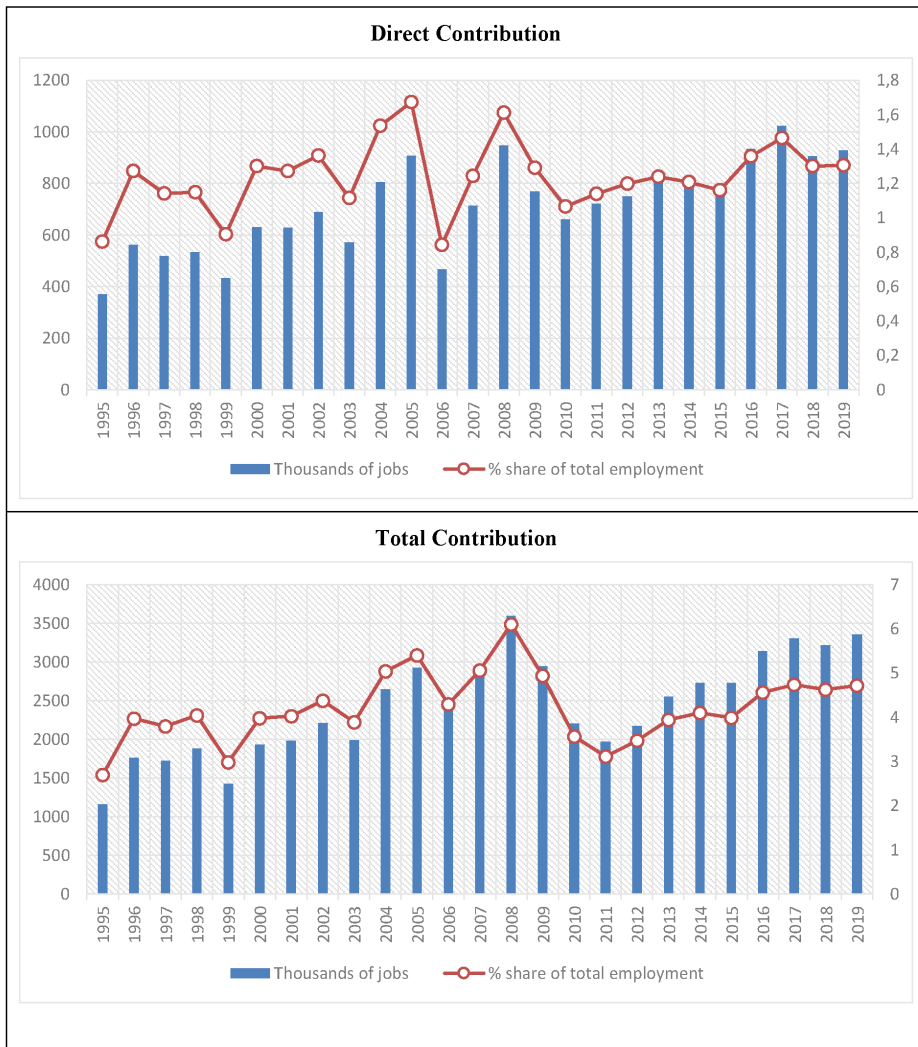


Figure 3. Contribution of Tourism to Employment

Source: World Travel and Tourism Council

Meanwhile, the lower panel of Figure 4, which displays the total contribution of the sector to the GDP, revealed that the sector's total contribution to GDP has been increasing in absolute terms, but this increase is not significantly reflected in its share of total GDP. This may be due to the significant rise in Nigeria's total GDP over the period. The chart revealed that the total contribution of tourism as a share of GDP in Nigeria stood at 2.9% in 1999. This has, however, increased rapidly since the country's return to democracy to peak at 5.8% in 2008. Since then, though, it has started witnessing sharp decline, which may be due to the effects of the Global Financial Crisis of 2008. This decreasing trend continued till 2011, but it has since recovered and rose to 4.5% in 2019.

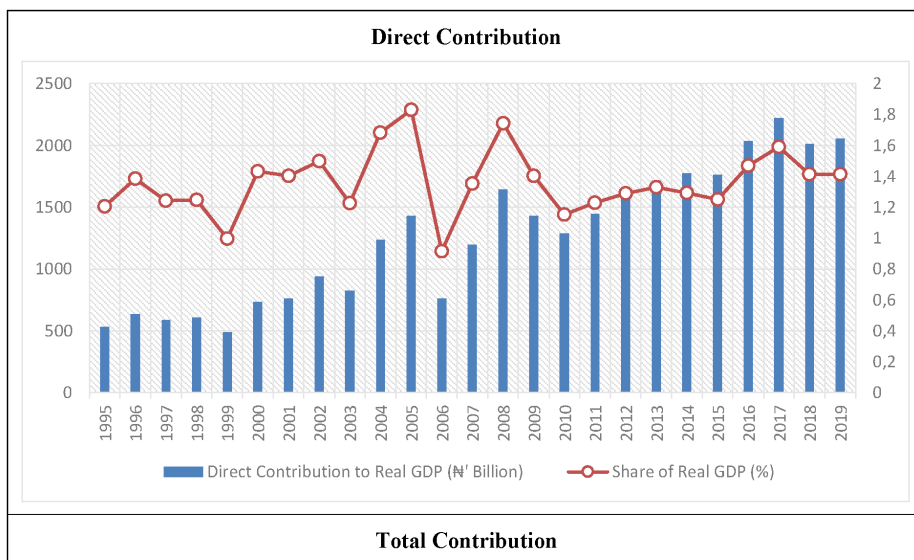


Figure 4. Contribution of Tourism to GDP

Source: World Travel and Tourism Council

Figure 5 displays the trend of Nigeria's inbound tourism receipts against outbound tourism expenditure. The former refers to expenditures of both domestic and international tourists on the Nigerian economy, while the latter is what Nigerians spend on tourism-related activities abroad. As can be observed from the chart, both inbound and outbound expenditures have been steadily rising, although with some slumps. More significant, however, is the fact that inbound tourism earnings have always exceeded outbound expenditures by huge margins, until 2019 when outbound expenditures grew significantly, and surpasses inbound tourism earnings. The implication of this is that Nigerians spent more on tourism in other countries than the country's economy received from both nationals and foreigners on tourism activities

in 2019. This could mean a decline in the interest of both domestic and foreign tourists in the Nigerian tourist industry, which could be a result of poor marketing or a low level of maintenance and development of tourist centres in the country.

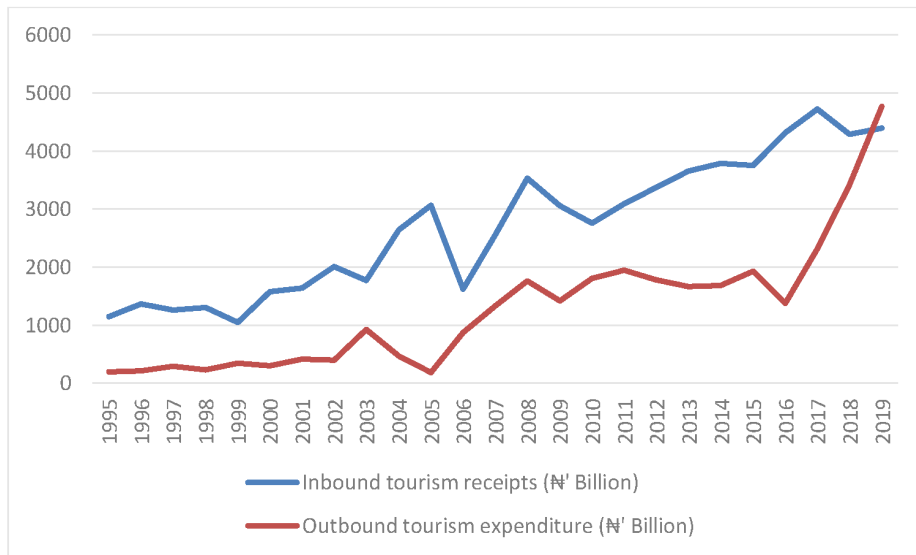


Figure 5. Nigeria's inbound and outbound tourism spending

Source: World Travel and Tourism Council

4.2 Determinants of tourism development in Nigeria

Pre-estimation Analysis

This study begins its empirical analysis by examining and providing some preliminary summary statistics of the actual values of all variables employed. These include the mean, standard deviation, skewness, kurtosis and Jarque-Bera statistics. The summary statistics is presented in Table 1 (see appendix). All variables in the series exhibit positive skewness, except electricity, which is negatively skewed. This negative skewness implies that the variable has a fatter tail on the left and that its mean is less than the median value. The average economic growth rate in Nigeria within the sampled period was about 5.3% while the average tourism receipt and tourism investment in the country amounted to 2,710 billion Naira and 1,024 billion Naira, respectively. Furthermore, all the variables showed evidence of normal distribution except capital expenditure, the Jarque-Bera value of which was statistically significant at the 1% level.

The study also examined the correlation coefficients among the variables to detect potential multicollinearity problems. However, from the result of the correlation analysis presented in Table 2 (see appendix), there is no presence of multicollinearity as none of the variables exhibited perfect correlation coefficients. The highest correlation coefficient among the series is 0.806 between air transport infrastructure and tourism receipts, the latter being the dependent variable. Hence, this is an indication of absence of serial correlation problems in the specified model.

The unit root test was conducted on the variables to determine their stationarity properties in terms of their level stationarity. The essence is to be able to determine the appropriate econometric technique suitable for the analysis. The test was carried out using the Augmented Dickey-Fuller (ADF) and the Phillip-Perron (PP) tests. The results of both tests are presented in Table 3 (see appendix). The result showed that all the variables were stationary at the first difference, which means that the variables are I (1) series.

The result of the Johansen cointegration test, as presented in Table 4, showed there were four cointegrating equations from the trace test statistic, while the Max-Eigen test returned three cointegrating equations. This implies the existence of long-run co-movement among the variables since the condition was to have at least one cointegrating equation from both trace and Max-Eigen tests.

Table 4. Summary of the Co-integration Estimate

Trace Test			Maximum Eigenvalue Test			
Hypothesized No. of CE(s)	No.	Statistics	0.05 Critical values	Hypothesized No. of CE(s)	Statistics	0.05 Critical values
None*		230.45	125.62	None*	80.57	46.23
At most 1*		149.88	95.75	At most 1*	52.45	40.08
At most 2*		97.43	69.82	At most 2*	45.80	33.88
At most 3*		51.63	47.86	At most 3	25.02	27.58
At most 4		26.61	29.80	At most 4	17.34	21.13
At most 5		9.27	15.49	At most 5	9.26	14.26
At most 6		0.01	3.84	At most 6	0.01	3.41

Source: Author's Computation

Estimation Analysis

Table 5 presents the estimated result of the determinants of tourism development in Nigeria. The result was generated using the FMOLS sequel to the confirmation of a long-run co-movement among variables through the Johansen Cointegration test.

The result showed that the Adjusted R-squared value was 0.907, which implies that the independent variables (determinants of tourism development) included in the model were able to explain about 91% of the total variations in tourism development, which indicates that the model has strong goodness of fit.

The result showed that the coefficient of security was positive, but only significant at the 10% level of significance. This positive sign exhibited by the coefficient of security implies that security has a positive impact on tourism development. An improvement in the security situation in the country is likely to increase tourism development by 0.46%. This result implies that tourism activities are very vulnerable to political instability, violence and terrorism, crises and disasters. This means that safety and security-related issues rank very high on the list of tourists' concerns when choosing their tourism destination, and as such, it has a significant impact on the tourism development of destination countries. The result is in agreement with that of Pizam and Fleischer (2002) who found that the frequency of terrorist attacks is a more dominant factor affecting tourism demand than the severity of violent attacks. Hence, security positively and significantly determines tourism development.

The result showed a positive and significant coefficient of electricity, which indicates that electricity is a positive determinant of tourism development. Accordingly, a 1% rise in electricity generates about 0.4% increase in tourism development. This implies that increased electricity consumption contributes positively to tourism development. This finding highlights the important role of power infrastructure in ensuring a vibrant tourism industry that is capable of contributing to growth and development.

The coefficient of the economic environment was positively signed and statistically significant at the 5% level, which indicates that the economic environment exerts a positive influence on tourism development in Nigeria. Since this variable was proxied by GDP growth rate, the result implies that a 1% growth in the economy engenders about 0.04% increase in tourism development. This means that changes in the economy can influence the performance of the tourism sector. While a growing and stable economy is important to spur tourism development, economic decline and uncertainty could hamper it. The result, therefore, reinforces the crucial role of the economic environment as a significant determinant of tourism development.

The result showed a positively signed coefficient of capital expenditure but was not statistically significant. This implies that capital expenditures of the government have not had any significant impact on tourism development in Nigeria. This finding can be explained on the grounds that, despite the increase in capital expenditure over time, the country is still bereaved with huge infrastructural deficit, especially road infrastructure.

Finally, the result showed that the coefficient of air transport infrastructure is positive and statistically significant at 1% level of significance. This implies that air transport infrastructure has a positive relationship with tourism development. A unit% increase in air transport infrastructure boosts tourism development by

about 0.63%. This means that a developed air transport system promotes tourism development. This finding shows the importance of an effective and efficient transport system for tourism, especially international tourism. This is further supported by the findings of UNWTO (2019) that travelling by air dominates the mode of transport for international tourism, which has increased from 46% in 2000 to 58% in 2018.

Table 5. Fully Modified Least Square result

	Tourism Development
Security	0.4633* (0.2294)
Electricity	0.3850*** (0.0996)
Economic Environment	0.0358** (0.0132)
Capital Expenditure	0.1020 (0.1235)
Air	0.6321*** (0.1672)
Constant	4.9614*** (1.3482)
R-squared	0.9356
Adjusted R-squared	0.9074
S.E of regression	0.1404

Standard error in parenthesis

Source: Author's Computation

Post-estimation Analysis

Some additional residual diagnostic tests were applied, including the Normality test and the Correlogram of residuals. The result of the former, as presented in Figure 6 (see appendix), showed that the Jarque-Bera statistics of the normality test were insignificant, which indicates a normal distribution of the residuals. Besides, the correlogram of residuals, displayed in Table 6 (see appendix), revealed that the probability value of the Q-statistics was insignificant, which confirms the non-existence of a serial correlation problem in the residual of the regression results.

Nature of Tourism-Growth Nexus in Nigeria

The empirical result presented in Table 7 relates to the result of the nature of the tourism-growth nexus in Nigeria using the Pairwise Granger Causality test. The result shows that the null hypothesis of economic growth not causing a change in tourism development should be rejected at the 1% level of significance while that of tourism development not causing a change in economic growth should not be rejected. In other words, there is a unidirectional causality between tourism development and economic growth in Nigeria, running from economic growth to tourism

development, an indication of growth-led tourism development. The implication is that, while changes in economic growth cause changes in tourism development, changes in tourism development do not have significant influence on economic growth in Nigeria. This could be attributed to the low performance of the sector, due to underlying challenges hindering its growth and development.

Table 7. Granger Causality Result

Null Hypothesis:	Obs	F-Statistic	Prob.
EG does not Granger Cause TOUR	23	8.32967	0.0027
TOUR does not Granger Cause EG		0.93377	0.4113

Source: Author's Computation

Conclusion

The study has investigated the potentials of the tourism sector for economic growth and economic diversification in Nigeria. The global tourism industry is witnessing significant growth. It remains an undeniable fact that, when fully developed, the tourism sector can significantly contribute to employment, revenue and overall economic growth. However, empirical evidence from this study revealed that this has not been the situation in the Nigerian case.

First, the performance of the Nigerian tourism sector has been unimpressive, with an insignificant contribution to employment and economic growth, to the point that Nigerians now pay more for international tourism than what the country receives from both domestic and international tourists. Indications are that this could be the result of sub-standard tourism assets and the underdevelopment of the Nigerian tourism sector in general, in terms of policy framework and uniqueness of the assets the country is blessed with. Secondly, the study found that infrastructural development is key to tourism development, as security, electricity and air transport infrastructure were found to be positive determinants of tourism development. Finally, a growth-led tourism development hypothesis was found implying that economic growth and stability matter to engender domestic and foreign investment needed for stimulating tourism development in Nigeria. The growth-led tourism result is in agreement with the findings of Oh (2005), Payne and Mervar (2010), and Lee (2012), but disagrees with Ighodaro and Adegboye (2020), who found a tourism-led-growth result for Nigeria.

Despite the insignificant contributions of tourism to economic development in Nigeria, the sector should not be written off. Instead, the focus should be on resolving the underlying challenges hindering its development. The sector should be given adequate attention to fully maximise its potential and contribute to the economic

diversification drive of the government. A great incentive for the government to invest in tourism in Nigeria can be the fact that a growth-led tourism development hypothesis was very evident in this study. This means that, when government addresses structural bottlenecks, such as poor infrastructure and terrorism, tourism's contribution to the GDP will come up as a positive externality. In other words, investing in Nigeria's economic growth is the first step to boosting tourism development.

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Appendix

Table 1. Summary of descriptive statistics

	Mean	std. dev.	Skewness	Kurtosis	Jarque-Bera
Tourism	2710.272	1167.230	.091	1.681	1.848
Security	-1.680	.478	1.102	2.951	5.061*
Electricity	114.733	25.666	-.257	1.849	1.655
Economic Environment	5.286	3.645	.416	3.112	.733
Capital Expenditure	728.093	504.287	1.337	4.931	11.334***
Air	31920.64	26603.04	.450	1.383	3.568

Note: std. dev. indicates standard deviation

*** p<0.01, ** p<0.05, * p<0.1

Source: Author's Computation

Table 3. Unit Root Test Results

Variables		ADF	PP	Decision
TOUR	Level	3.0257	2.0547	
	1 st Diff	-5.8275***	-5.6444***	I (1)
CAPEX	Level	1.5096	1.8024	
	1 st Diff	-1.7026*	-3.3700***	I (1)
EE	Level	-1.0856	-1.0108	
	1 st Diff	-5.7729***	-5.7729***	I (1)
SEC	Level	0.4986	0.6722	
	1 st Diff	-2.0624**	-4.2994***	I (1)
AIR	Level	0.4145	0.6403	
	1 st Diff	-4.6265***	-4.6213***	I (1)
ELECT	Level	0.0296	0.0296	
	1 st Diff	-5.4293***	-5.4287***	I (1)

*** p<0.01, ** p<0.05, * p<0.1

Source: Author's Computation

Table 2. Correlation Coefficients

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) Tourism	1.000						
(2) Security	-0.754	1.000					
(3) Investment	0.790	-0.754	1.000				
(4) Electricity	0.732	-0.801	0.649	1.000			
(5) Economic Environment	-0.207	-0.267	-0.112	0.143	1.000		
(6) Capital Expenditure	0.786	-0.614	0.782	0.455	-0.234	1.000	
(7) Air	0.806	-0.671	0.590	0.679	-0.298	0.741	1.000

Source: Author's Computation

Table 6. Correlogram of Residuals

Autocorrelation	Partial Correlation	AC	PAC	Q-Stat	Prob*	
. * .	. * .	1	0.080	0.080	0.1733	0.677
. * .	. * .	2	0.102	0.096	0.4665	0.792
. .	. .	3	0.066	0.052	0.5949	0.898
. * .	. * .	4	-0.116	-0.136	1.0127	0.908
. .	. * .	5	0.071	0.080	1.1763	0.947
. .	. * .	6	0.067	0.081	1.3329	0.970
. * .	. * .	7	0.099	0.092	1.6957	0.975
. .	. .	8	0.048	-0.007	1.7873	0.987
. .	. .	9	0.058	0.047	1.9258	0.993
. ** .	. ** .	10	-0.244	-0.269	4.5723	0.918
. ** .	. * .	11	-0.217	-0.200	6.8310	0.813
. * .	. * .	12	-0.139	-0.099	7.8368	0.798

*Probabilities may not be valid for this equation specification

Source: Author's Computation

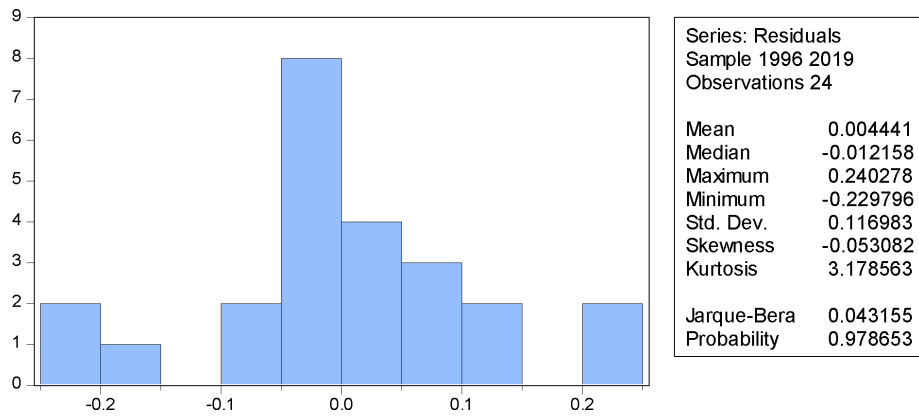


Figure 6. Histogram of Normality Test

Source: Author's Computation

MISSED PAYMENTS, RENEGOTIATIONS, AND HOUSEHOLD CONSUMPTION

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Abstract

The paper examines how consumption habits of borrowers are affected after missing one or more payments or when their loan payments are delayed by more than 90 days. In addition, we investigate how household consumption may be impacted by successful loan restructuring. Using data from the Eurosystem Household Finance and Consumption Survey for 2017, we find that households with late or missed loan payments report a fall in consumption levels and those with loans in arrears register an increase in consumption. This suggests that a household's failure to fulfil its commitments may actually help it increase its consumption. Other determinants that affect household consumption and income disparities are also considered to be explanatory variables.

JEL Classification: C21, E21, G21

Keywords: In-House/Out-of-House Consumption, HFCS, Non-Performing Loans

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1. Introduction

People's lives nowadays revolve around borrowing, especially among young people who are compelled to do so in order to cover potential obligations, such as a house purchase or funding their studies. However, because of the various needs that appear in the course of people's lives, households frequently lack the discipline and responsibility borrowing requires. This leads to missed payments, which makes the loans problematic (non-performing) and, in turn, poses financial stability and economic growth issues for the economy (Klein 2013).

The main objective of this study is to investigate to what extent consumption is affected by loan repayments. To conduct our analysis, we use data from the third wave of the Household Finance and Consumption Survey (HFCS) for Cyprus. The database allows identification of households that had late or missed loan payments while, in addition, it also offers information on whether these payments were delayed by more than 90 days. The extended information regarding households' financial status and demographics aids in having significant control variables for such estimation, while the split between consumption inside and outside the household allows us to better capture spending dynamics (Du Caju *et al.*, 2022; Lamarche 2015). With a weighted sample of 800 households with loans, we are offered a unique opportunity to examine this sort of behaviour. This study is the first to examine how loan repayments and consumption interact at the household level in Cyprus. These interactions are particularly important for policymaking as well as from a social perspective, since it allows us to obtain a deeper understanding of household behaviour, especially during crisis periods, when economic risks arise.

Our findings suggest that in high-income (top 5%-10%) households' in-house consumption is negatively affected by late or missed loan payments, while their out-of-house consumption is affected positively. High-income households report an increase in in-house consumption when loans are more than 90 days past due. At the same time, low-income households (40%-60% of the population) experience an increase in out-of-house consumption when they have loans in arrears. This can be explained by the fact that consumers frequently finance their consumption with the money they save from deferring a loan repayment. When the reason of the loan repayment issues is connected to a reduction in income, the out-of-house consumption of high-income households is also positively impacted; and this also applies to in-house consumption.

This study also demonstrates a positive link between in-house consumption and the household size, household income, and age of the person interviewed. The more people living in a household the higher the consumption costs usually are because of increased needs. Although older respondents tend to spend more on in-house consumption, this does not hold for out-of-house consumption. Consumption increases as expected when income increases, and this is especially true for low-income households where income elasticity is higher.

2. Literature Review

The relationship between indebtedness and consumption has been the subject of quite a few studies up to now, due to its economic policy importance. The understanding of such a relationship is significant for the financial system and the economy in general, as increases in debt can cause problems in the financial sector, which can slow economic development.

According to previous studies, households are more prone to borrowing when their income is temporarily low in order to level out their consumption. Therefore, greater credit availability may raise the amount of external finance available, which, in turn, may enhance current consumption (Rinaldi *et al.*, 2006; Bump *et al.*, 2009). They also suggest that households with mortgages that spend a larger portion of their income on mortgage payments spend less of their income on consumption, demonstrating the crowding-out effect (Fan *et al.*, 2020).

Interestingly, over the past ten years, and as borrowing has grown, consumption appears to have become more sensitive to major shocks (i.e., income shocks) according to Australian data (Kearns *et al.*, 2020). This is in line with the findings of Johnson *et al.*, (2007); Dynan *et al.*, (2007); Zabai (2017); Du Caju *et al.*, (2022) who found that the consumption of households with high debt-service obligations and low liquid assets is more sensitive to income fluctuations than the consumption of households with low liquid assets alone. However, in the event of negative income shocks, consumers who have illiquid assets, with high returns and illiquidity, prefer to cling onto these assets and use credit card borrowing to smooth their consumption (Laibson *et al.*, 2003; Dynan *et al.*, 2012). In other words, access to financial markets has a significant impact on household consumption spending, in what is known as the marginal propensity to consume out of wealth (see Poterba, 2000).

The ability of households to maintain their level of consumption could also be greatly affected if they were constrained from taking on new debt (Lindquist *et al.*, 2016). In addition, households are more likely to default on their obligations (by failing to pay off loans or other accounts) or be obliged to reduce their level of consumption if the debt service to income ratio is particularly high (Farinha *et al.*, 2012). A similar finding was reported by Antoniou *et al.*, (2022), who show that a higher debt service to income ratio increases a household's default probability.

Some studies look at the variations that arise for different types of households (high vs. low income households). First off, low-income households continuously consume at rates close to unity, meaning they consume all their income or are hand-to-mouth consumers (Fagereng *et al.*, 2016). However, it seems that wealthy hand-to-mouth households (people in their early forties who have significant wealth in housing and retirement accounts) have more intense consumption reactions to transient income shocks (Weidner *et al.*, 2014).

The existing literature has also used micro-level data to elaborate on this relationship. Le Blanc *et al.*, (2020), using data from the euro area's Household

Finance and Consumption Survey (HFCS) find that households with limited access to credit (most likely low-income households) may have a larger marginal propensity to consume out of wealth. In addition, they find that the elasticity of consumption with respect to income is significantly higher in households with high levels of debt. Borrowing and liquidity limitations are the main factors that account for the differences in household consumption elasticities with regards to income among households with different debt-to-asset ratios and debt levels (Baker *et al.*, 2015).

Other studies using HFCS data show that a negative relationship exists between debt and consumption (Lamarche 2015; Du Caju *et al.*, 2022). The findings suggest that the effect is stronger for lower-income households, for households the Financial Knowledgeable Person (FKP, the person answering the questionnaire) of which is unemployed and has a lower level of education.

In line with the literature overviewed, the focus of our study is on the relationship between loan repayment difficulties and household consumption in Cyprus, using micro (HFCS) data. Our findings indicate that households' inability to make loan payments on time has a negative impact on their consumption spending, but when loans are more than 90 days past due, consumption rises as a result of households using the money they did not use for loan repayment to fulfil their needs. The following section presents an overview of the methodology and the data employed in this study.

3. Methodology and Data Description

This study's objective is to determine whether debt repayment challenges have an impact on household consumption habits. To do this, the study uses a weighted cross-sectional regression model and, for obvious reasons, focuses only on households with loans. A similar setup to the one employed here was used by Antoniou *et al.*, (2022).

To answer our research question, we use data from the third wave of the Eurosystem Household Finance and Consumption Survey (HFCS). The survey, which gathers data on household finances and consumption, is run by the European Central Bank's Household Finance and Consumption Network (HFCN). The Central Bank of Cyprus has been conducting the survey in Cyprus since 2009, and the third wave, the data of which this study uses, was conducted in 2017¹. Overall, the sample includes 800 households that have taken out a loan, of which 288 are considered below the (weighted) average, while the remaining 512 fall into the category of those whose income is above average². This is due to the "oversampling of the wealthy" process that is followed according to the HFCN and ECB guidelines (Antoniou *et al.*, 2022).

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1. Other studies that have used HFCS data for Cyprus include Antoniou *et al.*, (2022), Michail *et al.*, (2020), and Michail *et al.*, (2021).
 2. Some descriptive statistics are presented in table A4 in the Appendix.

We use two dependent variables: in-house consumption and out-of-house consumption³, which measure how much money a household spends each month on food and beverages inside and outside the household, such as at cafes, restaurants, and canteens. As per Du Caju *et al.*, (2022) and Lamarche (2015), who also employ food consumption as a measure for their analyses, the benefits of using this metric are straightforward. In particular, it is easy for households to identify such consumption, it is quite inelastic because it represents an essential component of households' consumption, and it appears to suffer from less significant underreporting bias. In Cyprus, the weighted mean of in-house consumption is 414.3 euros while the weighted mean of out-of-house consumption and total food consumption is 154.1 euros and 568.4 euros, respectively. As such, out-of-house consumption represents the 26.4% of total food consumption while the in-house represents the 73.6% of total food consumption.

The explanatory variables used relate to loan repayment difficulties, financial characteristics and household demographics. The equation used to explain changes in consumption habits, is specified as follows:

$$C_{j,i} = a + b_{1j} * delays_i + b_{2j} * npl_i + b_{3j} * inc_decrease_i + b_{4j} * hhsz_i + b_{5j} * age_i + \sum_{k=1}^4 b_{6j,k} * education_{i,k} + b_{8j} * monthly_inc_i + b_{9j} * monthly_instal_i + \sum_{k=1}^4 b_{10j,k} * empl_status_i + b_{11j} * restructuring_i + b_{12j} * fin_assets_i + e_i$$

where j takes value 1 for in-house consumption and 2 for out-of-house consumption, while i represents the respective household. Our dependent variable is total debt (i.e., mortgage, revolving, and other consumption debt), given that we are interested in the household's behaviour concerning the totality of its loans. To this end, our key variables of interest relate to difficulties in loan repayment, which are connected to dummy variables, namely $delays_{j,i}$, $npl_{j,i}$ and $inc_decrease_{j,i}$. In particular, the first variable takes the value of one if the household had any late or missed loan payments. The second variable equals one if the household has non-performing loans⁴, and the last one takes the value of one if the loan delay was attributed, by the survey respondents, to any negative income shocks. All of these variables provide important insights with regards to household behaviour: delays in payments could potentially be a result of shifting funds from repayments to consumption, especially as income declines (the third dummy). At the same time, higher NPLs could potentially mean higher consumption as households stop repaying.

3. We also used total food consumption (the sum of in- and out-of-house consumption) as the dependent variable. Results are qualitatively similar and estimates are available upon request.

4. We note that the specification of the question relates to instalments that been in arrears for more than 90 days. Hence, while the more generic term "non-performing loan" is used, we note that this relates to households that have missed their payments by more than 90 days.

Table 1. Full Sample Estimates

	In-house Consumption			Out-of-house Consumption		
	(1)	(2)	(3)	(4)	(5)	(6)
Delays in Loan Payments (Dummy)	-55.70*** (19.23)	-52.10*** (20.17)	-68.95* (35.08)	-31.13* (17.52)	-18.37 (16.39)	19.27 (23.78)
Non-Performing Loans (Dummy)			130.9** (57.07)			4.452 (38.70)
Decrease in Income (Dummy)			-99.79* (50.93)			-13.43 (34.54)
Household size	79.02*** (6.73)	79.01*** (6.72)	55.51*** (6.57)	15.11*** (5.78)	16.73*** (5.14)	-0.126 (4.452)
Age	5.59*** (0.90)	6.18*** (0.91)	3.99*** (1.05)	-0.80 (0.55)	0.28 (0.54)	-0.539 (0.712)
Education						
Lower Education		-52.01* (31.52)	-53.67* (28.27)		-12.75 (16.87)	9.617 (19.16)
Degree		-15.75 (22.32)	-41.44* (23.29)		48.53*** (16.94)	37.01** (15.79)
Post-Graduate Degree		36.43 (33.29)	-27.76 (28.53)		126.1*** (33.54)	28.02 (19.34)
Total Household Monthly Income			0.03*** (0.004)			0.032*** (0.003)
Total Monthly Instalments			0.001 (0.007)			-0.014*** (0.005)
Employment status						
Retiree			66.79* (36.93)			-23.11 (25.04)
Salaried			-18.60 (26.76)			-9.048 (18.14)
Self-Employed			11.04 (32.71)			-7.703 (22.18)
Successful Loan Restructuring (Dummy)			-55.95* (30.63)			-13.79 (20.77)
Total Financial Assets			-0.114 (0.102)			0.008 (0.069)
Constant	-87.53 (45.40)	-108.9 (49.83)	-9.46 (63.44)	154.6 (35.70)	71.40 (35.02)	111.3 (37.51)
R-squared	0.2606	0.2700	0.2540	0.0333	0.1044	0.2560
Observations	800	800	800	800	800	800

The table presents the results of a weighted regression using hi0100 for in-house consumption and hi0200 for out-of-house consumption as the dependent variables. Variables “delays in loan payments”, “non-performing loans” and “decrease in income” are dummy variables which take the value of one if the statement is true and the value of zero otherwise. The same holds for “lower education”, “degree” and “post-graduate degree”, and relates to the respondent’s (Financially Knowledgeable Person – FKP) education, on the basis of question pa0200. See Table A2 in the Appendix for more details. “Retiree”, “salaried” and “self-employed” are also dummy variables created from pe0100 and pe0200. ***, **, * and denote significance at the 1%, 5% and 10%, respectively. Details regarding the construction of the variables can be found in Table A1 in the Appendix.

Age, education level, and employment status are those of the household member who is answering the survey (FKP = Financially Knowledgeable Person). We use four different categories of education: “lower education”, “medium education”, “degree” and “post-graduate degree” and four different categories of employment status: “retiree”, “salaried”, “self-employed” and “unemployed”, in order to exam-

ine whether findings change depending on the FKP's employment status and educational attainment (see also Blanden and Gregg, 2004). With regards to other demographic variables, $household_size_{j,i}$ refers to the number of people residing in the household, something that has also been found to be a significant determinant of household behaviour (Antoniou *et al.*, 2022)⁵.

Additional financial regressors were included in the model in order to capture other factors that may influence a household's spending ability. More specifically, $monthly_inc_{j,i}$ is the household's total monthly income (annual income divided by 12). Similarly, $monthly_instal_{j,i}$ refers to monthly payments on households' loans, other property loans and non-collateralised loans. $Restructuring_{j,i}$ takes the value of one if the household's non-performing loans have been restructured and it is zero otherwise, while $fin_assets_{j,i}$ refers to all financial assets of a household⁶. As expected, the higher the financial assets of a household, the higher the consumption, given the propensity to consume out of wealth (Poterba, 2000). More details on the construction of these variables are available in Tables A1 and A2 in the Appendix. The next section presents the empirical results from this exercise.

4. Empirical Estimates

Table 1 displays the estimation results of the weighted linear regression models, studying the impact of the previously-mentioned variables on in- and out-of-house consumption. To begin with, there is a significant negative relationship between late or missed loan payments and in-house consumption (specifications 1-3). In particular, missed or late loan payments are associated with a reduction in consumption by approximately 50-60 euros, a finding that is consistent across all specifications. This result can perhaps be justified due to the tendency of households to decrease their consumption in an effort to address their financing needs. However, the same does not seem to happen with out-of-house consumption. In this case, the relationship is insignificant (specifications 5-6).

A significant positive relationship between household size and in-house consumption is also present. Nonetheless, the relationship disappears in the out-of-house consumption, when the household's monthly income is incorporated in the equation (specification 6). In addition, the in-house consumption coefficient is greater than the out-of-house one. As such, this suggests that having a larger household leads to higher consumption levels. This higher need for consumption is a natural outcome of having more people at home, and one that was shown to also have an impact on default risk (Antoniou *et al.*, 2022).

5. In robustness checks for our analysis we also divide consumption by household size to obtain the per person consumption.

6. In line with Antoniou *et al.*, (2022), we have included the DSTI variable, representing the mortgage debt service to income, which is calculated as the proportion of monthly mortgage payments to total household monthly income; we have also introduced to the model a variable that takes the value of one when DSTI-exceeds 40%. However, this was found to be insignificant in our estimates.

The effect resulting from age differs depending on the type of consumption. An increase in in-house consumption occurs when the FKP is older, while the relationship between age and out-of-house consumption is insignificant. It appears that peoples' needs tend to change as they grow older. This is in line with relevant literature that suggests that older people spend less on restaurants, coffee shops and canteens in comparison to how much they spend on household products (Kearney *et al.*, 2001). The impact of education, on the other hand, suggests that household consumption decisions do not seem to correlate with the level of the FKP's education.

A clear connection between income and consumption both in- and out-of-house consumption is evidenced (specifications 3 and 6). As expected, higher income positively affects consumption. However, the marginal effect is not large, given that an increase in income by around 100 euros only results in a 3-Euro rise in spending. When compared to the (weighted) average household expenditure of 400 euros for in-house consumption and 100 euros for out-of-house consumption, respectively, the 3-euro increase suggests that the marginal propensity for in-house consumption is around 1% but rises to 3% for out-of-house consumption, when demographic and spending factors are taken into consideration.

While not present in the in-house specifications, a negative relationship between monthly instalments and out-of-house consumption is present. It seems that households, in their efforts to meet their responsibilities, find it easier to cut down their out-of-house consumption when monthly instalments are higher. No evidence of such behaviour is found in the case of in-house consumption. As such, estimates suggest that in-house is more inelastic than out-of-house consumption. Finally, employment status and financial factors (e.g., debt service to income ratio, financial assets, and loan restructuring) do not appear to have a substantial impact on consumption.

Table 2. Estimates for in-house consumption using income percentiles

	<20%	20%-40%	40%-60%	60%-80%	>80%	>90%	>95%	<50%	>50%
Delays in Loan Payments	2.699 (76.34)	-1.244 (34.32)	-29.57 (56.20)	-135.8 (107.7)	-136.1 (86.54)	-461.9*** (142.9)	-373.2*** (93.06)	3.277 (32.53)	-78.43* (44.46)
Non-Performing Loans	-95.61 (133.0)	-95.76 (63.59)	-24.05 (71.94)	159.5 (146.2)	234.3** (98.69)	505.5*** (134.4)	467.4** (216.3)	-15.81 (66.75)	73.42 (78.73)
Decrease in Income (Dummy)	108.9 (106.4)	26.65 (68.91)	21.18 (67.27)	6.635 (92.73)	-129.2 (83.16)	220.6* (112.6)	258.0 (213.0)	-20.29 (65.20)	-19.72 (69.55)
Household size	35.66* (18.06)	59.83*** (16.47)	64.36*** (14.50)	73.10*** (14.44)	93.22*** (13.63)	105.0*** (21.29)	137.8*** (32.31)	53.41*** (11.24)	71.72*** (9.643)
Age	1.080 (1.928)	6.716*** (2.060)	1.633 (2.349)	1.998 (1.757)	13.21*** (2.730)	13.66*** (3.479)	14.01* (7.278)	2.667* (1.393)	5.057*** (1.558)
Education									
Lower Education (Dummy)	-8.841 (66.35)	-71.54* (37.96)	-7.134 (45.55)	16.55 (51.66)	-198.4*** (71.19)	-293.4** (137.6)	N/A	-14.32 (42.20)	-63.67* (34.26)
Degree (Dummy)	-71.85 (57.89)	33.88 (45.38)	-59.67 (51.93)	-30.23 (40.36)	-75.20 (50.39)	16.70 (63.17)	181.3 (118.5)	-19.06 (35.88)	-61.65** (31.31)
Post-Graduate Degree (Dummy)	235.2 (226.7)	-14.01 (48.99)	-36.10 (55.76)	-117.2** (56.25)	35.24 (55.16)	148.7* (81.13)	258.1* (140.8)	-41.39 (59.34)	-35.91 (38.82)
Total Household Monthly Income	0.20 (0.16)	0.152 (0.093)	0.038 (0.067)	0.066* (0.037)	0.019** (0.008)	0.006 (0.009)	0.003 (0.012)	0.064** (0.030)	0.025*** (0.007)
Total Monthly Instalments	-0.02 (0.04)	-0.007 (0.026)	-0.019 (0.014)	-0.023 (0.016)	0.023 (0.014)	0.034** (0.013)	-0.009 (0.026)	0.003 (0.015)	0.016 (0.014)
Employment Status									
Retiree (Dummy)	6.370 (90.76)	128.8 (125.4)	-7.123 (86.64)	348.2*** (118.3)	-76.70 (87.99)	-129.8 (126.8)	178.3 (251.6)	54.28 (68.56)	81.50 (66.45)
Salaried (Dummy)	-56.22 (81.82)	27.99 (104.6)	-33.57 (45.77)	85.88* (46.40)	-46.49 (58.42)	-124.3 (104.1)	-139.7 (215.2)	-40.27 (49.51)	-1.619 (37.57)
Self-Employed (Dummy)	23.38 (118.5)	-5.329 (112.1)	26.82 (56.94)	69.09 (53.52)	-78.60 (67.63)	-144.4 (122.5)	-48.63 (232.2)	-7.410 (52.07)	-44.24 (45.44)
Successful Loan Restructuring (Dummy)	-6.935 (87.65)	-93.16** (41.26)	23.57 (50.60)	-49.54 (57.31)	-36.82 (62.13)	90.90 (131.8)	249.4 (189.8)	-49.32 (32.98)	-27.68 (37.54)
Total Financial Assets	1.740*** (0.653)	0.827 (1.323)	-0.217 (0.622)	-0.646* (0.386)	-0.062 (0.143)	-0.057 (0.140)	-0.081 (0.176)	1.587* (0.881)	-0.104 (0.151)
Constant	12.91 (134.6)	-358.0 (264.8)	64.42 (176.5)	-192.9 (183.6)	-546.9 (165.0)	-494.2 (243.2)	-660.8 (490.2)	-7.372 (82.87)	-122.3 (101.7)
R-squared	0.2900	0.3793	0.2995	0.3178	0.3579	0.3596	0.3757	0.2719	0.3019
Observations	105	108	157	185	245	148	76	288	512

The table presents the results of a weighted regression using hi0100 for in-house consumption as the dependent variables. To differentiate between households with high and low incomes, income percentiles are used. Variables “delays in loan payments”, “non-performing loans” and “decrease in income” are dummy variables which take the value 1 if the statement is true and the value 0 otherwise. The same holds for “lower education”, “degree” and “post-graduate degree”, and relates to the respondent’s (Financially Knowledgeable Person – FKP) education, on the basis of question pa0200. See Table A2 in the Appendix for more details. “Retiree”, “salaried” and “self-employed” are also dummy variables created from pe0100 and pe0200. ***, **, * and denote significance at the 1%, 5% and 10%, respectively. Details regarding the construction of the variables can be found in Table A1 in the Appendix.

Table 2 illustrates the results of grouping households by income brackets while accounting for variances in income. Brackets are used in order to obtain more accurate results, given that it is likely that differences in income could lead to a different kind of behaviour by households. The specifications in Table 2 include all the factors of the third specification of Table 1.

Our findings reveal a substantial inverse relationship between household spending for higher-income households and late or missed loan payments, albeit only in the top income brackets. In other words, households with monthly incomes of over 5,799 euros (90th percentile) appear to cut back on their consumption of food and beverages at home by around 460 euros, whereas households with monthly incomes of over 7,649 euros (95th percentile) experience a 373-euro reduction. This might be a result of households with higher incomes being more responsible and preferring to sacrifice a significant portion of consumption expenditure in order to pay back the payments later. Overall, it appears that high-income households (top 5%-10% of the population) experience greater changes in consumption compared to low-income households (below 40th percentile). This is in line with literature (Weidner *et al.*, 2014) that suggests wealthy households exhibit more intense consumption reactions to temporary income shocks.

On the other hand, a positive connection emerges between non-performing loans and consumption. Housing consumption expenditure appears to be higher for households with non-performing loans (NPLs) in the top 20% of income brackets. This is in line with earlier studies, suggesting that borrowing is increased to support consumption during periods of temporary low income (Bump *et al.*, 2009; Kittiphongphat 2018; Rinaldi *et al.*, 2006). It is important to note that for households with higher incomes, the rise in consumption because of NPLs outweighs the reduction brought about by loan payment delays. Hence, while loan payment delays may induce households to reassess their spending habits, this stops being significant after the loan enters the 90-day-past-due category. This finding is in line with the literature on the topic that suggests that wealthy households may react differently as opposed to ordinary indebted households, since their portfolios are more diversified (Fagereng *et al.*, 2016). According to the aforementioned findings, there may be a vicious cycle that causes GDP growth to suffer because of a decrease in consumption brought about by late loan payments. Given the pervasive Okun's law link, a decline in GDP growth is likely to result in a rise in unemployment, which, subsequently, influences loans in the economy (Cleanthous *et al.*, 2017).

As already mentioned, having a bigger family has a positive effect on consumption levels. Taking income variances into consideration, it appears that higher income households present a higher increase in consumption due to their size. When comparing the 20th and 95th percentiles of income, it appears that household size boosts high-income households' consumption by almost four times more than low-income ones (35.7 euros versus 138 euros, respectively).

The FKP's age has a positive impact on in-house consumption, although differences in income do not appear to have a large impact on coefficients. As opposed to the analysis above, there are observable changes in the relationship between consumption and education levels. In other words, consumption spending and households with a low-educated FKP appear to have a significant negative relationship.

A significant relationship seems to also emerge between those with a post-graduate degree and consumption. On the one hand, the relationship seems to be negative for households with monthly incomes between 3,100 and 4,583 euros, i.e., the above-average income bracket. One plausible explanation is that persons with higher levels of education are more efficient and can buy the same amount of goods for less money (Michael, 1975). On the other hand, the relationship is positive for households with incomes over 5,799 euros (90th percentile and above). It's possible that people with higher income and level of education have more expensive requirements and, hence, spend more on in-house consumption, something that is naturally in contrast with what Michael (1975) is suggesting.

The relationship between financial assets and consumption is somewhat mixed, given that it is only positive in the bracket below 20%. This is in line with Fagerent *et al.*, (2016), who point out that using some of the household's financial assets to smooth consumption is an option if the household has enough financial assets. In this case, work status does seem to have an effect on consumption. Particularly when the FKP of a household is retired, the in-house consumption for the 60% to 80% income range increases.

Table 3 presents the estimates for the effects of out-of-house consumption. In this case, a different relationship between delays in loan payments and consumption appears. For low-income households (i.e., under 20%), the relationship is negative but for high-income households (over 95%) it becomes positive. Lower-income households may, as previously mentioned, restrict their out-of-house consumption expenditures in order to preserve money for their liabilities, whereas higher-income households may have high standards and find it difficult to cut back on spending even during difficult times, which leads to an increase in their expenditure.

Additionally, there are differences in how households with non-performing loans and out-of-house consumption are related. When their loans stop performing, low-income households (in the 40-60% brackets of the population) are seen to increase their consumption. This appears to be a behaviour of people using their borrowings to finance their consumption (Khalaf *et al.*, 2018). According to the authors, it is likely that households who cannot meet their obligations by paying their instalments, use the money for investments and consumption. That is consistent with the fact that Cyprus' level of consumption was not as negatively affected by the 2013 crisis as initially expected.

Conversely, high-income households' (80th and 95th percentile) consumption decreases when their loans become non-performing. Taken in conjunction with Table

2, while in-house consumption declines for high-income households, it increases for low-income ones when their loans are more than 90 days past due. Overall, it appears that the impact of missed instalment payments mitigates, to some extent, the impact from non-performing loans for both low-income and high-income households. It is interesting to see that these two types of households do not seem to react similarly. The in-house consumption of low-income households does not seem to be affected by late loan payments. On the other hand, the in-house consumption of high-income households is negatively affected by late loan payments and positively affected by NPLs. Additionally, low-income households' (those with incomes below the 20th percentile) out-of-house consumption declines when late payments take place. On the other hand, the impact is positive and negative, respectively, for the out-of-house consumption patterns of high-income households.

For people with incomes between €2,083 and €3,100 (40th-60th percentiles), a delay in loan payments resulting from a decrease in household income has a negative impact on out-of-house spending. Thus, families who experience a negative shock in income seem to spend less money on out-of-house consumption. However, it is interesting that households in the highest percentile income groups increase their out-of-house spending when the reason behind their delays in loan payments is due to a reduction in income.

A different relationship than that shown in Table 2 appears to exist for household size. In this case, household size does not have a clear impact on household consumption, with coefficients being negative for the 40%-60% of the population and positive for the 60%-80%. As such, it appears that households with more members do not tend to spend more on out-of-house consumption.

As expected, monthly income has a substantial relationship with out-of-house expenditure. The coefficient falls as household income rises (20% vs. 80% of the distribution), which means that compared to high-income households, low-income households base their consumption more on their level of income.

For the highest income levels, the employment status-related coefficients seem to be negative (mainly for the top 5%-10% of the population). Out-of-house spending appears to be negatively impacted by work status in all three instances (i.e., when the FKP of a household is a retiree or salaried or self-employed). In contrast to in-house consumption, this relation may develop because supplementary consumption (e.g., spending on cafes, restaurants, canteens) is easier to stop than other types of spending.

Further analysis of the estimates, using equivalised consumption (i.e., consumption adjusted by household size) shows that our results remain robust to this adjustment. The analysis can be found in the Appendix.

Generally, high-income households' in-house consumption is negatively impacted by loan repayment issues, while their out-of-house consumption is positively impacted. Low-income families indicate no change in in-house consumption when loans are more than 90 days past due, whereas high-income households report an increase. An increase in out-of-house consumption is also reported for low-income households when their loans are in arrears.

Table 3. Estimates for out-of-house consumption using income percentiles

	<20%	20%-40%	40%-60%	60%-80%	>80%	>90%	>95%	<50%	>50%
Delays in Loan Payments	-70.71*** (23.83)	83.41 (63.24)	-26.48 (28.94)	-37.56 (51.85)	90.46 (60.96)	-156.5 (118.0)	209.1*** (59.91)	14.06 (47.23)	17.79 (35.19)
Non-Performing Loans	4.697 (37.75)	-88.31 (70.09)	112.6* (62.37)	143.9*** (68.46)	-154.2* (80.30)	83.76 (132.5)	-541.7*** (210.0)	19.73 (54.14)	-34.36 (55.43)
Decrease in Income (Dummy)	47.88 (37.00)	-12.01 (49.97)	-105.9* (60.48)	-66.79 (53.59)	232.0** (113.3)	594.3 (372.6)	1397.8*** (181.5)	-30.68 (32.74)	39.54 (57.30)
Household size	-11.24 (11.24)	-15.31 (11.48)	-20.45** (8.562)	19.42** (9.607)	6.130 (12.30)	18.37 (14.85)	20.96 (22.96)	-15.97** (6.454)	7.757 (9.033)
Age	-1.321 (1.137)	-1.604 (1.614)	-2.365** (0.973)	0.185 (1.413)	0.574 (2.555)	-0.834 (3.588)	-0.563 (7.334)	-1.425* (0.727)	-0.211 (1.126)
Education									
Lower Education (Dummy)	-3.977 (26.89)	13.04 (25.59)	-24.80 (25.79)	0.262 (23.18)	143.7** (60.30)	-69.28 (123.3)	N/A	6.353 (18.24)	-3.003 (28.02)
Degree (Dummy)	49.51 (32.70)	-28.64 (41.22)	0.558 (27.75)	36.22 (25.30)	21.73 (41.32)	33.18 (58.90)	35.46 (116.4)	27.89 (22.91)	11.62 (20.27)
Post-Graduate Degree (Dummy)	134.2 (122.5)	11.18 (38.54)	-17.80 (31.52)	100.3 (61.68)	36.58 (40.84)	13.90 (61.29)	-55.49 (117.9)	13.83 (24.37)	60.55 (38.53)
Total Household Monthly Income	0.105*** (0.038)	0.164** (0.072)	0.091** (0.038)	0.067*** (0.023)	0.034*** (0.008)	0.027*** (0.009)	0.020** (0.010)	0.049*** (0.015)	0.030*** (0.006)
Total Monthly Instalments	-0.013 (0.018)	-0.006 (0.011)	-0.002 (0.007)	-0.033** (0.013)	-0.007 (0.006)	-0.003 (0.008)	0.028 (0.031)	-0.009 (0.006)	-0.009* (0.005)
Employment status									
Retiree (Dummy)	27.62 (43.24)	61.46 (69.75)	-79.11** (38.73)	79.19 (54.03)	-187.0** (81.83)	-481.7*** (163.4)	-350.6*** (167.7)	32.75 (31.24)	-69.60* (35.54)
Salaried (Dummy)	9.337 (34.94)	29.35 (52.95)	-76.84** (35.55)	28.71 (33.52)	-86.05 (71.02)	-371.1** (161.3)	-268.9*** (97.76)	14.88 (25.32)	-38.89 (26.66)
Self-Employed (Dummy)	-14.87 (32.80)	-9.248 (51.67)	-60.34 (37.13)	-14.55 (32.77)	-129.0* (75.00)	-447.2*** (168.5)	-322.1*** (114.5)	-3.977 (23.86)	-76.08*** (25.26)
Successful Loan Restructuring (Dummy)	-54.47 (34.37)	-33.83 (33.18)	-46.98 (38.68)	67.65 (47.02)	-14.66 (66.78)	107.1 (131.7)	18.99 (190.8)	-12.63 (24.83)	-2.768 (38.75)
Total Financial Assets	0.935 (0.755)	0.489 (0.606)	-0.671** (0.264)	0.151 (0.244)	-0.035 (0.123)	-0.007 (0.008)	0.197 (0.194)	0.811* (0.464)	-0.081 (0.005)
Constant	93.17 (73.97)	-66.68 (147.5)	171.9 (111.5)	-195.0 (120.1)	37.56 (171.0)	413.4 (252.0)	337.6 (428.6)	125.3 (41.87)	68.55 (79.38)
R-squared	0.3555	0.2316	0.2860	0.2320	0.2836	0.3203	0.4292	0.1902	0.2383
Observations	105	108	157	185	245	148	76	288	512

The table presents the results of a weighted regression using hi0200 for consumption outside the house as the dependent variables. To differentiate between households with high and low incomes, income percentiles are used. Variables “delays in loan payments”, “non-performing loans” and “decrease in income” are dummy variables which take the value 1 if the statement is true and the value 0 otherwise. The same holds for “lower education”, “degree” and “post-graduate degree”, and relates to the respondent’s (Financially Knowledgeable Person – FKP) education, on the basis of question pa0200. See Table A2 in the Appendix for more details. “Retiree”, “salaried” and “self-employed” are also dummy variables created from pe0100 and pe0200. ***, **, * and denote significance at the 1%, 5% and 10%, respectively. Details regarding the construction of the variables can be found in Table A1 in the Appendix.

5. Conclusions

When a household has to satisfy various needs, such as purchasing a home, funding studies, or boosting consumption, the need for obtaining a loan rises significantly, especially among younger adults. However, given the numerous challenges a household must deal with, paying off debts is not simple. In this respect, troubles with loan repayment can be potentially passed on to other aspects of a household's life, such as its consumption behaviour. The main goal of this paper is to examine to what extent difficulties in repaying debts, including having loans in arrears (over 90 days past due), can potentially affect household consumption patterns, using data from the third wave of the Eurosystem Household Finance and Consumption Survey (HFCS).

Our findings suggest that loan-repayment difficulties have a negative impact on in-house consumption but a positive impact on out-of-house consumption for high-income households. When loans are over 90 days past due, low-income households do not report any change in their in-house consumption, while high-income households experience an increase. At the same time, low-income households experience an increase in out-of-house consumption, as well. This can be explained by the fact that consumers tend to use the money they save from not paying back their loans to finance their spending. High-income households' out-of-house consumption is also positively affected when the reason behind the loan repayment difficulties is related to a decline in income, and this holds for in-house consumption (only for households in the top 90% of the population). Low-income households (20% - 40%), after settling the arrears by restructuring their loans, appear to cut back on their consumption. A possible explanation for this is that households attempt to conform and keep their consumption at levels they can handle.

This study also indicates a positive relationship between household size, age and in-house consumption. Higher consumption expenditure is associated with having more people in a household, since there are more needs. Older respondents suggest that they tend to spend more on in-house consumption but this does not hold for out-of-house consumption. As expected, higher income leads to more consumption, and this holds particularly for low-income households since income elasticity is higher for them.

An interesting implication is that a trade-off is observed between consumption and non-performing loans, given that higher NPLs lead to higher consumption. While this can partially explain the reason behind the better-than-expected economic performance in Cyprus over the Economic Adjustment Programme period of 2013-2016 (European Commission, 2013), this poses a heavy burden on banks as their NPLs rose significantly during the period, raising significant financial stability and bank viability issues. The positive relationship between NPLs and consumption appears to be because households are likely to use borrowing to fund their consumption.

The identification of relationships such as the above is of high importance for the economy of Cyprus, since understanding the reactions of households to various shocks allows us to identify the impact of these events on economic growth. Specifically, this study suggests that a vicious circle may develop when consumption declines as a result of loan-payment delays, which will then hurt GDP growth. The loop would continue as a decrease in GDP growth is likely to lead to an increase in unemployment, given the prevalent Okun's law relationship, which would then affect loans in the economy (Cleanthous *et al.*, 2017). As such, the need to take pre-emptive action to minimise the likelihood of default (as per the factors identified by Antoniou *et al.*, 2022), as well as to avoid over-extension of credit (Cleanthous *et al.*, 2017) is further emphasised by our estimates. This would ensure that even when periods of economic turbulence occur, the ripple effect of problems across the economy via the financial sector is further decreased. As such, it is clear that late loan payments pose a significant threat to financial institutions, household prosperity, and economic growth on a wider scale. However, the extent and magnitude of this relationship has not been thoroughly studied in Cyprus. Additionally, different models might be applied, allowing for a more extensive investigation and, perhaps, better results (e.g. Branten, 2022). While interesting and with significant policy implications, we leave this highly intriguing area open for future research.

Appendix

Table A1. Variable Definitions

Codes	Questions	Regression Variable
RA0300	What is X's (your) age?	Age
PA0200	What is the highest level of education (you/he/she) (has/have) completed?	Education (table A2)
HNC0125 (2)	Now, thinking of all the various loan or mortgage payments due in the last twelve months: were all the payments made the way they were scheduled, or were payments on any of the loans sometimes made later or missed? (It happened once or more that I was late with or missed some of the payments)	Delays in Loan Payments
HCCY002	Were you ever overdue by 90 days or more?	Non-Performing Loan
HCCY005 (1)	Reason you/your household does not pay the instalments of your loan on time? (Decrease of the household's monthly income)	Decrease in Income
HCCY008	In the past did you have any loans that were overdue 90+ days, that are now restructured, and all instalments are paid on time?	Successful Loan Restructuring
PE0100	What is (your/X's) current employment status? Which categories best describe (your/his/her) situation? Please start with the most important employment status.	Employment Status (Unemployed, Retiree)
PE0200	In (your/his/her) current main job, (are you/is [he/she]) working for someone else, self-employed with or without employees or an unpaid worker in a family business?	Employment Type (Salaried vs Self-Employed)
HI0100	About how much does (you/your household) spend on average by month on food and beverages at home?	Consumption in the house
HI0200	About how much does (you/your household) spend on an average month on food and beverages outside the home ? I mean expenses at restaurants, lunches, canteens, coffee shops and the like. Please, include only amounts (you/your household) paid out i.e., net of any employer subsidy/discount/promotion etc.	Consumption outside the house
Derived	Number of persons in the household	Household Size
Derived	Total Household Income = gross labour income (PG0110) + gross income from self-employment (PG0210) + gross income from public pensions (PG0310) + gross income from occupational and private pension plans (PG0410) + gross income from unemployment benefits (PG0510) + income from public/regular social transfers (HG0110) + gross rental income from real estate property (HG0310) + gross income from financial investments (HG0410) + gross income from private businesses other than self-employment (HG0510) + income from regular private transfers (HG0210) + gross income from other sources (HG0610)	Total Household Income
Derived	Total Financial Assets = value of sight accounts (HD1110) + value of saving accounts (HD1210) + market value of mutual funds (HD1330) + market value of bonds (HD1420) + value of publicly traded shares (HD1510) + value of additional assets in managed accounts (HD1620) + value of any other financial assets (options, futures, index certificates, etc.) HD1920	Total Financial Assets
Derived	Total Monthly Instalments = monthly payment on loan (HB200\$) + monthly payment on additional loans (HB2200) + monthly payment on other property loan (HB400\$) + monthly payment on additional other property loans (HB4205) + monthly payment on non-collateralised loan (HC100\$) + monthly payment on additional non-collateralised loans (HC1200) + monthly leasing payments (HC0110)	Total Monthly Instalments
Derived	Total Outstanding Amount = amount owed on the loan (HB170\$) + outstanding amount on loan on the residence (HB2100) + amount still owed on property loan (HB370\$) + amount still owed on other loans (HB4105) + outstanding amount on overdraft accounts (HC0220) + outstanding amount on credit cards (HC0320) + outstanding amount on other loans (HC036\$) + amount still owed on other private loans (HC0370) + outstanding amount on other loans (HC080\$) + amount still owed on the loans (HC1100)	Total Outstanding Amount
Derived	Total household monthly income = Total household income/12	Total Monthly Income

Table A2. Education Brackets

	Education Brackets
Lower Education	0 – Early childhood education or no education 1- Primary education 2 - Lower secondary or second stage of basic education
Medium Education	3 - Upper secondary 4-Post-secondary non- tertiary education 5 –Short cycle tertiary education
Bachelor's Degree	6 – Bachelor or equivalent
Post-Graduate Degree	7- Master's or equivalent 8 – Doctoral or equivalent

Table A6. Estimates for equivalised in-house consumption using income percentiles

	<20%	20%-40%	40%-60%	60%-80%	>80%	>90%	>95%	<20%	>20%
Delays in Loan Payments	-10.08 (44.73)	-19.82 (21.61)	-14.25 (26.95)	-64.01 (41.58)	-58.38** (29.52)	-126.6*** (34.42)	-131.6*** (44.89)	-16.63 (21.32)	-32.40 (21.12)
Non-Performing Loans	-25.14 (97.74)	-31.99 (37.23)	20.22 (37.68)	69.18 (53.42)	95.44*** (34.99)	136.1*** (30.45)	201.3** (78.41)	55.55 (47.83)	20.05 (33.97)
Decrease in Income (Dummy)	9.681 (87.31)	10.12 (37.70)	-32.06 (29.65)	-22.70 (30.33)	-52.33* (31.02)	-12.30 (38.77)	-41.41 (79.46)	-78.91* (47.33)	-13.60 (27.00)
Age	1.586 (1.250)	2.870** (1.135)	1.221 (1.063)	2.095*** (0.663)	6.515*** (1.190)	6.084*** (1.474)	6.648** (2.667)	1.518** (0.726)	3.236*** (0.637)
Education									
Lower Education (Dummy)	3.371 (42.52)	-52.92** (25.25)	-11.37 (15.41)	7.490 (16.51)	-61.49** (26.92)	-10.61 (59.15)	N/A	-6.888 (25.05)	-31.72** (13.93)
Degree (Dummy)	9.197 (45.55)	9.581 (22.04)	-12.23 (19.26)	7.479 (12.36)	-14.13 (17.29)	17.01 (16.33)	58.82** (29.11)	6.772 (21.06)	-8.956 (10.69)
Post-Graduate Degree (Dummy)	467.3*** (140.8)	-26.79 (35.26)	40.60 (29.92)	-26.77* (15.46)	32.78* (19.71)	55.55* (29.91)	102.2** (48.27)	27.21 (46.60)	15.50 (14.15)
Total Household Monthly Income	0.059 (0.068)	-0.006 (0.060)	0.011 (0.025)	0.018 (0.011)	0.001 (0.002)	-0.001 (0.002)	-0.001 (0.003)	-0.020 (0.014)	0.003 (0.002)
Total Monthly Instalments	-0.014 (0.020)	-0.002 (0.014)	-0.003 (0.007)	-0.008 (0.006)	0.015** (0.006)	0.022*** (0.005)	0.001 (0.006)	0.004 (0.010)	0.013* (0.007)
Employment status									
Retiree (Dummy)	16.41 (50.76)	110.8* (57.04)	24.74 (34.44)	160.3*** (57.51)	-12.98 (38.22)	19.38 (38.01)	62.13 (69.09)	55.30 (35.51)	44.15 (31.25)
Salaried (Dummy)	0.992 (52.67)	28.63 (50.42)	4.254 (18.48)	29.16* (17.64)	1.246 (23.69)	6.681 (24.84)	-30.58 (48.15)	5.479 (26.56)	1.062 (14.15)
Self-Employed (Dummy)	-39.56 (52.09)	41.97 (64.69)	12.17 (20.98)	9.505 (22.94)	-28.09 (31.34)	-25.95 (34.71)	-15.57 (55.24)	18.84 (32.01)	-31.91 (19.63)
Successful Loan Restructuring (Dummy)	-42.90 (63.25)	-45.88** (20.23)	32.26 (23.38)	-2.041 (18.45)	-41.21** (16.32)	-34.12 (23.93)	41.62 (31.90)	-22.51 (19.57)	-17.82 (12.12)
Total Financial Assets	0.364 (0.564)	0.336 (0.717)	-0.220 (0.252)	-0.155 (0.171)	-0.012 (0.041)	-0.007 (0.040)	-0.042 (0.051)	0.699 (0.481)	-0.028 (0.046)
Constant	40.58 (74.59)	14.74 (147.3)	42.97 (75.62)	-47.83 (61.43)	-184.7 (61.07)	-170.9 (74.94)	-184.7 (132.8)	96.71 (42.73)	-28.93 (33.21)
R-squared	0.2428	0.2827	0.1092	0.3728	0.4602	0.5830	0.5159	0.1544	0.2833
Observations	105	108	157	185	245	148	76	288	512

Delays in Loan Payments	-54.09** (22.89)	1.652 (18.18)	-15.98 (17.45)	-31.10* (18.24)	14.42 (15.18)	-45.48** (22.06)	38.80** (15.51)	-26.66* (15.13)	3.750 (12.88)
Non-Performing Loans	11.42 (40.53)	21.32 (33.86)	128.1** (53.58)	48.00** (20.08)	-38.49** (19.11)	-4.320 (26.42)	-137.3** (53.89)	76.98*** (29.35)	-12.90 (16.12)
Decrease in Income (Dummy)	-2.146 (33.55)	-36.42 (35.13)	-126.9*** (46.45)	-22.97* (13.60)	196.2** (99.25)	163.1* (94.36)	342.6*** (56.36)	-74.57*** (25.77)	44.76 (36.24)
Age	-0.728 (0.664)	-1.348 (0.883)	-0.306 (0.497)	0.411 (0.641)	1.376 (0.979)	1.381 (1.039)	2.449 (2.170)	-0.690 (0.422)	0.549 (0.443)
Education									
Lower Education (Dummy)	-0.926 (21.53)	-12.24 (11.93)	-16.15 (9.811)	-2.271 (8.417)	19.88 (19.09)	26.39 (37.86)	N/A	-0.339 (11.20)	-17.29 (12.54)
Degree (Dummy)	70.60*** (23.85)	9.485 (31.61)	41.66 (30.19)	22.70** (11.39)	19.69 (15.43)	15.91 (16.70)	25.06 (30.91)	52.51** (20.52)	19.54* (10.11)
Post-Graduate Degree (Dummy)	160.3*** (57.12)	12.07 (16.76)	79.84*** (24.09)	18.00 (13.01)	57.75** (27.74)	14.10 (15.94)	3.713 (25.37)	39.15** (18.06)	56.00* (29.04)
Total Household Monthly Income	0.061* (0.031)	0.023 (0.043)	0.021 (0.020)	0.007 (0.009)	0.004* (0.002)	0.005** (0.002)	0.004 (0.003)	-0.009 (0.008)	0.004*** (0.002)
Total Monthly Instalments	-0.010 (0.010)	-0.0001 (0.006)	-0.006 (0.004)	-0.009*** (0.003)	-0.001 (0.003)	0.000 (0.002)	0.005 (0.007)	-0.005 (0.004)	-0.002 (0.003)
Employment status									
Retiree (Dummy)	25.25 (36.99)	67.59** (32.90)	3.599 (18.65)	35.25* (20.91)	-23.88 (28.38)	-81.74*** (28.79)	-85.46 (54.36)	36.59 (22.70)	-2.846 (15.88)
Salaried (Dummy)	10.14 (23.94)	20.99 (25.59)	3.298 (12.63)	9.943 (10.21)	8.663 (22.84)	-46.68** (23.05)	-42.26 (26.37)	19.65 (14.69)	9.093 (13.33)
Self-Employed (Dummy)	-12.66 (31.53)	3.967 (25.91)	12.78 (19.87)	-7.351 (9.952)	-26.32 (31.32)	-72.02*** (25.62)	-55.58* (31.01)	8.810 (16.68)	-12.82 (11.23)
Successful Loan Restructuring (Dummy)	-63.33* (33.38)	-21.18* (12.13)	-5.418 (21.30)	31.01 (19.20)	-27.12 (20.14)	6.019 (23.07)	9.165 (36.30)	-3.307 (18.09)	-9.577 (15.97)
Total Financial Assets	0.803 (0.642)	0.259 (0.317)	-0.216 (0.141)	0.016 (0.079)	-0.021 (0.036)	0.007 (0.027)	0.055 (0.044)	0.493 (0.325)	-0.036 (0.043)
Constant	49.82 (35.53)	59.39 (100.4)	4.838 (50.09)	-2.583 (54.34)	-49.14 (51.15)	14.20 (60.67)	-52.59 (122.6)	84.65 (25.27)	-3.150 (27.50)
R-squared	0.4372	0.1682	0.2720	0.1508	0.3336	0.2069	0.3679	0.2069	0.1424
Observations	105	108	157	185	245	148	76	288	512

Table A7. Estimates for equivalised out-of-house consumption using income percentiles

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ENTREPRENEURSHIP EDUCATION FOR MIGRANTS AS A PATH TO SOCIAL INCLUSION: THE CASE OF SOUTHEASTERN EUROPE

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Abstract

Europe has always attracted migrants despite the serious socioeconomic problems, such as unemployment and exclusion, they encounter. Labour market integration has been a policy priority in the EU. The important role of entrepreneurship and entrepreneurship education has been widely acknowledged in that context since the development of entrepreneurial culture and entrepreneurial skills can have multiplier effects for both migrants and hosting economies. Entrepreneurial competences are among the key competences for Lifelong Learning, setting out skills that contribute to the enhancement of employability, personal development, and active citizenship. This paper focuses on European Union recent policies and initiatives related to entrepreneurship education for migrants.

JEL Classification: O15, F22, I24, I25, J68

Keywords: Entrepreneurship Education, Entrepreneurial Competence, Social Inclusion, Migrant Entrepreneurship, Life Skills, Policies

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1. Introduction

The pressing need for migrants' social inclusion is broadly recognised since it affects not only them but also the cohesion of society (Levitas *et al.*, 2007) but what is the real meaning of the term and what are the means to achieve it? According to the European Union (EU) Employment and Social Affairs Directorate, social inclusion refers to “... *the development of capacity and opportunity to play a full role, not only in economic terms but also in social, psychological, and political terms...*” The means to achieve this are linked to the creation of prerequisite conditions, through the development of policies related to employability, housing, health improvement, poverty elimination, and skills and competences enhancement. In the same vein, literature on entrepreneurship education claims that entrepreneurship education can contribute towards skills and knowledge acquisition, the creation of employability opportunities, and ultimately, socio-economic well-being and elimination of inequalities. Based on a critical review of theoretical and policy literature, this paper¹ will attempt to answer the question: Does the entrepreneurship education of immigrants contribute to their social inclusion and how? The review on relevant EU policies and initiatives will be followed by a discussion focusing on competence-oriented methods to effectively enhance immigrants' social integration.

2. Socio-political background

According to official data of the International Organization for Migration (2019), the global number of international migrants was 272 million (3.5% of the world's population) in 2019. It has been proven that some countries strongly attract immigrants from developing economies. More specifically, the top destination country is the United States, one of the seven most developed economies (G7), with 50.7 million international migrants, while Northern America, along with Europe, host more than half of all international migrants (141 million). On the other hand, the three largest countries of origin of international migrants are India (with 17.5 million migrants living abroad), Mexico, and China (with 11.8 million and 10.7 million respectively), all three characterised as developing economies (UN, 2021).

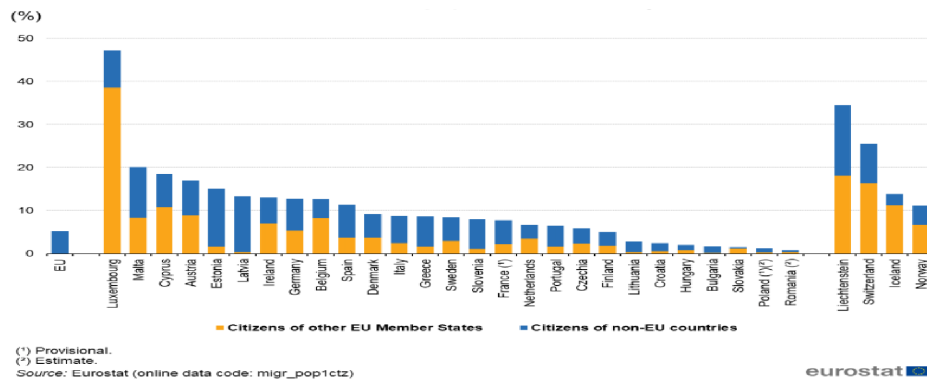
Europe has always been a top destination for migrants. However, during the last decade, an unprecedented influx of immigrants and refugees, mainly from Syria, Afghanistan, Iraq, and even from African countries, albeit at a lower rate, has been recorded. Besides the political turbulence in some countries of Asia and North Africa, the causes should be sought elsewhere, for example, in climate change, which triggers unemployment and lack of economic prospects, i.e., two of the most important 'push' factors of international migration. The proximity of Eu-

1. This paper is based on previous work presented in the 16th European Conference on Innovation and Entrepreneurship - ECIE 2021, 15-17/09/2021, Lisbon, Portugal.

rope to Africa and Asia seems to play a key role in it being selected as a destination. On the other hand, the ‘pull’ factors for migration towards Europe should not be underestimated. Most European citizens enjoy a high standard of living. Moreover, the previous existence of migrant communities in European countries plays a crucial role (Migali *et al.*, 2018). These communities tend to help potential migrants to gather valuable, discrete, and unofficial information through social media; this transforms the nature of such networks and, thereby, facilitates migration (Dekker & Engbersen, 2012).

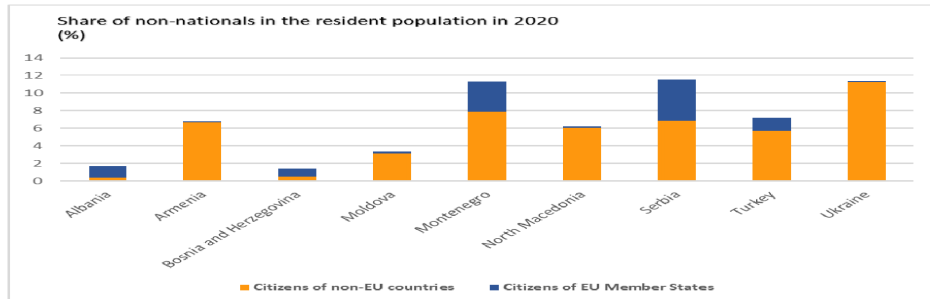
The percentage of third-country nationals residing in EU Member States on 1 January 2021 represented 5.3% of the EU-27 population (23.7 million). Besides, 13.7 million nationals of an EU country lived in another EU Member State on 1 January 2021, as illustrated in Figure 1. Clearly, there are significant differences in the rates of migrants in EU countries.

Figure 1. Share of non-nationals in the resident population, 1 January 2021 (%)



Source: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Fig06_Share_of_non-nationals_in_the_resident_population,_1_January_2021_\(%25\)_rev.png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Fig06_Share_of_non-nationals_in_the_resident_population,_1_January_2021_(%25)_rev.png)

Equally important differences can be observed in immigration rates in South-Eastern Europe countries that do not belong to the EU. According to the ‘Knowledge Centre on Migration and Demography’ of the European Commission, in 2020, Ukraine, Montenegro and Serbia were the countries with the highest rates of immigrants. On the other hand, Albania and Bosnia and Herzegovina seem to be extremely unattractive to migrants; while these countries receive extremely low rates of immigrants in their territory, they seem to attract mostly immigrants from EU countries.

Figure 2. Migration in non-EU countries of South-Eastern Europe in 2020

Source: <https://migration-demography-tools.jrc.ec.europa.eu/atlas-migration/data?selection>

The significant differences in the rates of migrants in European countries could be attributed to different pull factors in every country. ‘Push’ factors seem to play a crucial role as well, dramatically changing migration flows in the course of this year. More specifically, it appears that the outbreak of the war in Ukraine has drastically changed the refugee / migration flow into Europe, greatly affecting migration rates in countries such as Poland (Duszczuk & Kaczmarczyk, 2022). Nevertheless, apart from Poland, according to the United Nations High Commissioner for Refugees, other countries of Central and South-Eastern Europe seem to be affected. Only in the Czech Republic, refugees from Ukraine had exceeded 460.000 persons by November 2022. Other countries that attracted large numbers of refugees from Ukraine are Slovakia, the Republic of Moldova, Romania, Bulgaria, and Hungary. Therefore, countries which were not traditionally host countries for immigrants or refugees are now considered as such (UNHCR, 2022).

As one would have expected, countries’ reactions to immigration have been contradictory. Countries with a long tradition in receiving migrants, such as Germany, seemed more prepared in terms of integration policies and actions and they were also more open to the new populations since the role of refugees and migrants in the country’s economic growth was highly valued. It should be noted that expected growth is closely related to the existence of a favourable environment, understanding migrants’ profile, and providing them with appropriate education (ESPON, 2018). This has raised a discussion among EU countries about turning the challenge into an opportunity for growth through entrepreneurship, since the positive aspects of migrant entrepreneurship could outweigh potential obstacles. Even though there has been a debate in relevant literature over the correlation between entrepreneurship and economic growth, the view that the two are positively correlated eventually prevailed (Sarri & Trichopoulou, 2018). According to the Global Report 2019/2020 for the Global Entrepreneurship Monitor “...entrepreneur-

ship is a uniquely powerful mechanism for economic and social development, generating incomes and jobs while enabling and enriching individuals and communities. Truly, an engine for change..." The significance of entrepreneurship tends to be greater when vulnerable population groups get involved. According to the European Network 'Cities for Local Integration Policy' (CLIP), apart from financial benefits, such as economic growth of the local area, creation of new jobs (according to OECD, in 2016 approximately 28% of the self-employed immigrants in the EU hired employees) and connection of the local markets to global ones, ethnic entrepreneurship may have other aspects related to the revival of lost trades and arts and the provision of higher added value services (Rath, 2011).

Ethnic entrepreneurship is a familiar phenomenon worldwide. A high rate of migrants already tends to show a strong interest in entrepreneurship within host societies. In Australia, 30% of small businesses are owned by migrants and in Germany, in 2015, 44% of the owners of newly established enterprises were foreigners (Sarri & Trichopoulou, 2018). Although, according to the official data of the EU, in 2018, the percentage of self-employed migrants in the EU lagged, compared to that of EU natives, by 1.9 percentage points (13% vs. 14.9%) (OECD / EU, 2019), IOM (2019) claims that, in general, immigrants tend to have higher entrepreneurial activity compared to natives. Additionally, in countries such as the United States, migrants have disproportionately contributed to innovation (IOM, 2019). There is a massive trend among migrants to have the willingness to run their own business as - in addition to the financial impact - the implementation of business projects and activities may also positively contribute to the picture citizens form about them. According to Eurobarometer surveys, many European citizens express a positive view of entrepreneurship and the role of entrepreneurs in creating new jobs (Sarri & Trichopoulou, 2012). Nevertheless, the fact that ethnic businesses tend to fail more frequently than those established by natives might imply the existence of a series of problems that migrants face at the outset. One of the main obstacles of migrants' entrepreneurship is related to difficulty in accessing financial resources from official financial institutions (Desiderio, 2014). What is more, migrants usually encounter other challenges, such as regulatory barriers to starting a business and lack of preparation for everyday life in the new country (UNCTAD, UNHCR and IOM, 2018). At the same time, neither their lack of nor disconnection from entrepreneurship education should be overlooked.

3. Policies and Initiatives in the sector of Entrepreneurship Education

The significance of migrants' inclusion into host societies has been broadly acknowledged by international organisations, governments, the academic world, and civil society, as a lever for local economy growth. At an international level, the recent establishment of the United Nations Network on Migration and the

introduction of the Global Compact on Migration have become milestones in the field of global migration governance. The Global Compact on Migration is founded on a set of 23 objectives linked to an equal number of commitments, and are followed by a range of actions, which, in many cases, include skills development, education, and entrepreneurship. Nevertheless, the Global Compact agreement is non-legally binding; it represents a near-universal consensus on issues requiring sustained international cooperation and commitment for the creation of conditions that will enable all migrants to enrich host societies through contributing to sustainable development at the local, national, regional, and global levels (IOM 2019; also see Boutsiouki, 2022).

As concerns the EU, it has developed a range of targeted policies in an attempt to encourage national authorities to support migrants' inclusion and to take initiatives to promote entrepreneurship education as a means of fulfilling this purpose. Back in 2000, with the approval of 'The European Charter for Small Enterprises', Member States and the European Commission were invited to take action to support and encourage small enterprises in ten key-areas including education and training for entrepreneurship, considering small enterprises as one of the most promising sources of new jobs, innovation, economic dynamism, and greater social inclusion. Three years later, the EU Green Paper 'Entrepreneurship in Europe' highlighted the importance of entrepreneurship education one more time. It pointed out that education and training would contribute towards encouraging of entrepreneurship, by supporting the development of the awareness and skills necessary for developing an entrepreneurial mindset. Although evidence shows that ethnic minorities display high levels of entrepreneurial flair and even greater potential, the business support services available do not appear to effectively respond to migrants' specific needs. At the end of the same year, the public debate following the Green Paper 'Entrepreneurship in Europe' underlined that the objectives it set could be achieved on condition that additional initiatives are implemented with regard to educational procedures and methods, while it placed special emphasis on trainees' exposure to the business world, skill-oriented learning, and teachers' training on entrepreneurship. In 2005, Commission's Communication to European institutions, concerning the implementation of the Community Lisbon Programme 'Modern SME Policy for growth and employment', refers to the need for national strategies promoting entrepreneurial skills. Moreover, the ability of Member States to use resources from European Social Funds to reduce skill gaps, by improving business-related training and lifelong learning, is positively assessed even though doubts have arisen about the effectiveness of such actions. In addition, what was once again highlighted was the importance of networking among policymakers to identify and promote good practices that support ethnic entrepreneurs.

In the years that followed, there were constant references to EU policies and action plans that promoted entrepreneurship education, which often specifically targeted vulnerable population groups, such as migrants and refugees. More specifically, the sense of initiative and entrepreneurship was identified as an essential component of knowledge-based society and was included in the eight key-competences of lifelong learning declared in a European Parliament and Council Recommendation in 2006. In that text, special reference was made to migrants who have different learning needs due to educational disadvantages caused by their personal, social, cultural, or economic circumstances; for this reason, such migrants must receive special support to fulfil their educational potential. Two years later, the EU initiative 'Small Business Act' (2008) created a new policy framework integrating existing enterprise policy tools and building on the European Charter for Small Enterprises and the Modern SME policy through a set of 10 guiding principles for the conception and implementation of policies at both EU and Member State level. The eighth principle refers to the promotion of skills upgrading and to all forms of innovation in Small-Medium Enterprises, which are the most common type of ethnic businesses. Under this umbrella of applying the principles, the Commission undertook a series of actions that seemed to be less targeted but invited Member States to plan more specific actions, which, among others, foster cooperation with the business community, developing systematic strategies for entrepreneurship education at all levels and providing mentoring and support for immigrants who aspire to become entrepreneurs. In 2012, in the Commission Communication 'Rethinking Education: Investing in skills for better socio-economic outcomes', special reference was made to the importance of investing in business skills that not only enhance the development of new businesses, but also the employability of young people. In addition, the European Commission suggested that Member States should cooperate with the business community on developing strategies for entrepreneurship education and providing mentoring and support for migrants who wish to become entrepreneurs. The European Commission maintained its focus on the issue with the publication of the Entrepreneurship Action Plan 2020 (2013) and the New Skills Agenda for Europe (2016); both emphasised the need to promote entrepreneurship education and place entrepreneurial learning under the spotlight, ending up with a wide range of initiatives across Europe. From 2015 until today, in the frame of the European Agenda on Migration and its updates, many policy papers have been published by the EU. Apart from the other challenges posed by the immigration crisis, EU policy papers emphasised the fact that Member States should share migrant relocation fairly and responsibly as a necessary precondition for migrants' integration at local and regional level.

Figure 3. EU policy initiatives including migrant entrepreneurship education

Although for many decades and up until 2000 European policies mainly focused on the integration of migrants into paid employment, in the last two decades there has been wider recognition of the importance of migrant entrepreneurship, as well as of migrants' entrepreneurship education (Rath, 2011). In this context, several policies, initiatives, and actions have been developed and guidelines articulated in order for Member States to implement relevant projects in collaboration with private sector and civil society actors. Most of the host countries in Europe offer educational courses to newcomers mainly targeting the improvement of their language skills. In Greece, for instance, a wide range of agents participate in this effort, such as Migrant Integration Centres, the Integration Training Centres of Project HELIOS, public and private lifelong learning centres, the Modern Greek Language Teaching Centre of the National and Kapodistrian University of Athens, Second Chance Schools and many Non-governmental organisations. However, when discussions focus on migrants' entrepreneurship education in Greece, the number of actors involved decreases, while it becomes even smaller in the case of competence-oriented entrepreneurship education. Moreover, the publication of *EntreComp* (Bacigalupo *et al.*, 2016) was followed by increasing interest in the implementation of competence-oriented entrepreneurship education projects for migrants across Europe. An interesting example comes from the project 'Fresh-start' in Belgium, the Netherlands, and the United Kingdom, which provides 120 first-generation migrants with routes to social and economic inclusion by encouraging and supporting their entrepreneurial talents and teaching entrepreneurial competences (McCallum *et al.*, 2018). Similarly, the ELYME project in Italy, France, Belgium, and the UK is an entrepreneurship programme that offers migrants support in starting up their business or growing an existing one with the use of effective tools and methods for assessing their entrepreneurial skills and competences. Besides these two projects, six more relevant projects were approved, under the two calls for proposals for 'Entrepreneurial capacity building for young migrants', which covered the following seven countries: Austria, Finland, Germany, Greece, Poland, Spain, and Sweden.

Figure 4. Projects on entrepreneurship and entrepreneurship education for migrants and refugees funded by the E.U. or the U.N.

Participants from	Funded by	Project Name	Objective / Short Description	Target Group	Duration
Greece	U.I.A.	Curing the limbo	Improving the basic skills of refugees for finding employment, mainly in areas of exchange economy and the social entrepreneurship sector.	Refugees	2018-2021
UK, Greece, France, Austria & Italy.	Erasmus+	INSERT	Developing the competences of educators / professionals for the promotion of Social Entrepreneurship among adults with migrant background.	Adults with migrant background	2017-2019
Greece, Spain, Italy, Cyprus & Malta.	Erasmus+	MYSITE	Migrant & Youth Social Inclusion Through Entrepreneurship.	Migrants & Youths	2018-2019
Greece	UNHCR	Welcommon	Welcoming of migrants, social inclusion, education/training.	Migrants	2016-today
Greece, France, Italy, Spain, Portugal, Ireland, Germany & Sweden.	AMIF	WEMIN	Implementing and promoting a pioneering integration model for migrant and refugee women of all ages in the communities involved, by addressing social, educational, and professional aspects of inclusion in eight countries throughout the EU.	Migrant and refugee women	2017-2019
Belgium, Bulgaria, Greece & Denmark.	Erasmus+	CRADLE	Linking entrepreneurial skills and foreign language through new practical language learning environments using EntreComp.	Include students from migrant backgrounds	2018-2019
Italy, Belgium, Germany & Finland.	Call: 'Entrepreneurial capacity building for young migrants' (EU)	ME4Change	Helping migrant entrepreneurs start and grow their businesses.	Immigrants	2017-2019
Italy, Germany, Spain, Greece & Sweden.	>> >>	EntryWay	Contributing to the support of economic integration of migrants through the provision of comprehensive entrepreneurship training and assistance.	Immigrants	2017-2019
Italy, Germany, Spain, Greece & Sweden.	>> >>	YOU-ME	Providing information, training, and mentoring support to migrants, especially young ones, coming from war-torn countries often with low educational background and/or lack of language skills, for helping them establish their own business.	Young Migrant Entrepreneurs	2017-2019
Poland, Austria The Netherlands & Italy.	>> >>	YMCB	Developing an innovative approach towards creating the appropriate ecosystem to support young migrants' entrepreneurship through a combination of education and training, mentoring and access to finance.	Young Migrants	2019-2021
Italy, Greece & Sweden.	>> >>	BITE	Contributing to the social and economic integration in EU Countries of newly arrived migrants from Sub-Saharan Africa, by accompanying them in the creation of small businesses that have positive social and environmental impact in their Countries of residence, through a tailored business acceleration process.	Newly arrived migrants from Sub-Saharan Africa	2019-2021
France, Belgium, UK & Sweden.	>> >>	ELYME	Supporting entrepreneurship among migrants already permanently residing in the EU, for becoming self-confident, self-employed, and building a successful enterprise.	Migrants	2019-2021
Italy, Spain Germany, Austria & Finland.	>> >>	EUStartGees	Helping young refugees (18-25 years) to become self-employed and to build a successful enterprise, for achieving full inclusion in local countries' hosting community.	Refugees	2019-2021
Belgium, France, Germany & Netherlands	COSME	EMEN	Promoting and supporting migrants' entrepreneurship at all levels by sharing approaches and lessons learnt on migrant entrepreneurship across and between public administrations, business, and other public and private organisations.	Migrants	2017-2020

* Changes may have occurred in some of the projects above in terms of partners, duration, etc.

Indicative sources: <https://www.emen-project.eu/wp-content/uploads/2020/09/D3.1-Inclusive-Ecosystems-towards-a-comprehensive-support-scheme-for-migrant-entrepreneurs-in-Europe-FINAL.pdf>
<https://publications.jrc.ec.europa.eu/repository/handle/JRC109128>
https://single-market-economy.ec.europa.eu/smes/supporting-entrepreneurship/migrant-entrepreneurs_en

Special provision has been made for funding all the above by the Asylum Migration and Integration Fund (AMIF), the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Parliament and other financial sources. These funds are expected to effectively support initiatives targeting the improvement of linguistic and professional skills, and the access to services and the labour market.

In recent years, implementation of good practices supporting immigrant entrepreneurship shows that countries with a tradition of receiving immigrants pay greater attention and invest in migrants' social integration through the development of relevant actions and projects. According to the latest data from EU-funded projects, it seems that among EU countries, Greece, Italy, Germany, Spain, and Sweden implement a wide range of pertinent projects, followed by Belgium, France, Austria, the Netherlands, and Finland. The increased interest of these countries in migrant-oriented projects can be associated with their urgent need to establish favourable conditions for the socioeconomic inclusion of the large numbers of migrants entering their territory. However, not all European countries show the same willingness to foster migrant entrepreneurial education and activity. For instance, Malta, a country of southern EU, in spite of receiving a great migrant influx, too, does not participate in such projects; thus, its intentions to integrate migrant populations arriving can be questioned.

4. The role of migrants' entrepreneurship education in their social inclusion

It is widely accepted that education is of vital importance for the wellbeing of citizens and the development of societies. Education contributes to the creation of thriving economies and inclusive societies. Over the last decades, the importance of entrepreneurship education has been broadly recognised and, for this reason, several initiatives to include it in formal and non-formal education have been put in place (Sarri & Laspita, 2022). The objectives of entrepreneurship education are connected to the support of entrepreneurship and the development of entrepreneurial spirit, both of which are drivers for growth. Although there seems to be a point of agreement that the main incentives for entrepreneurship education are of an economic rather than a social nature, entrepreneurship education promotes entrepreneurship by influencing attitudes, values, and community culture in general (Mwasalwiba, 2010). According to Galor and Michalopoulos (2006), there is a remarkably close correlation between the evolution of entrepreneurial spirit and the transition from stagnation to growth. In addition, developing an entrepreneurial spirit can positively affect the way people think and act and the same could apply among vulnerable population groups, too.

In that perspective, entrepreneurship education can also affect the life of migrants. More specifically, the impact of entrepreneurship education on migrants'

socioeconomic inclusion can be approached from two different perspectives. The first one relates to the benefits of running a successful ethnic business. Migrants who are well-educated and have previous management experience are more likely to succeed as entrepreneurs. What is more, they have better prospects of widening the market where they operate as entrepreneurs (Basu & Pruthi, 2021). Furthermore, migrants' entrepreneurship leads to the creation of a stable income in the household. In addition, the entrepreneurial activity of migrants results in the creation of networks inside and outside the ethnic community and contributes to the enhancement of their self-esteem. Self-employment of migrants can increase respect of the native population towards the newcomers. According to the report of the European Migration Network 'Understanding Migration in the European Union' (2018), the percentage of EU citizens who have negative or very negative feelings towards immigrants is high and tends to increase over time (from 54% in 2014 to 57% in 2017). The same report notes that increased contact with immigrants tends to promote positive attitudes towards them. Consequently, the successful entrepreneurial activity of migrants, provided they receive appropriate education or at least participate in educational processes, could facilitate their frequent and substantial contact with natives, thus leading to the migrants' coveted approval by them, which is an important factor of social inclusion.

The second perspective is connected to the hypothesis that competence-oriented entrepreneurship education can lead to the acquisition of life skills and competences. According to the public debate following the Green Paper 'Entrepreneurship in Europe' (2003), entrepreneurship education should favour the development of a variety of useful skills and personality traits, such as opening to lifelong learning, proactive attitude, self-reliance, creativity, problem-solving, critical thinking, and interpersonal skills, which also constitute entrepreneurship skills and competences, according to the Entrepreneurship Competence framework published by CEDEFOP (Bacigalupo *et al.*, 2016). Lazear's theory (2005) holds that entrepreneurs should be jacks-of-all-trades, meaning that people should build multifaceted personalities by obtaining diversified skills and competences throughout their lives.

In the past, the acquisition of such skills depended on the different roles an individual would undertake, which shaped the diverse background that was considered necessary for successful entrepreneurial action. Nowadays, the situation has considerably improved because entrepreneurship education provides not only knowledge but also skills, competences, and attitudes. 'EntreComp' perceives entrepreneurship as a skill for the entire life of the individual, from their personal development to their social life and employment (Bacigalupo *et al.*, 2016). Therefore, irrespective of their economic, cultural or social focus, migrants with competence-oriented entrepreneurship education should be expected to be able to face the challenges of the future and to be equipped with adequate knowledge, skills and

attitudes essential for full participation in society. In other words, such migrants will be ready to seize opportunities and put their ideas to practice, transforming them into value for others.

Furthermore, according to UNICEF and WHO, the aim of life skills education is to equip individuals with appropriate knowledge on risk-taking behaviours and to develop skills, such as communication, assertiveness, self-awareness, decision-making, problem-solving, critical and creative thinking (Nasheeda *et al.*, 2018). In many cases, achieving this goal coincides with acquiring entrepreneurial skills and competences.

Entrepreneurship education can play a crucial role in the creation of an entrepreneurial culture and the welfare of enterprises. People who are exposed to entrepreneurship are more likely than others to establish and successfully run a new business, thus being able to create value for themselves, the economy, and society as a whole. In a more detailed analysis, it seems that entrepreneurship competences are largely in line with life competences 'LifeComp' (Sala *et al.*, 2020). Many of the fifteen sub-competences of the 'EntreComp' framework (Bacigalupo *et al.*, 2016) are compatible with the nine sub-competences of the 'LifeComp' framework (Sala *et al.*, 2020), a set of competences applying to all spheres of life that can be acquired through formal, informal, and non-formal education and can help citizens thrive in the 21st Century.

This could become more coherent, with a detailed overview of the two frameworks, where in the case of specific competences, such as self-awareness and self-efficacy, coping with uncertainty, ambiguity, and risk, and working with others, there is direct compatibility; this means that entrepreneurship competences are considered as life competences, too. In other cases, compatibility is indirect or should be sought in more than one competence. These observations could provide a safe path to reach the assumption that entrepreneurship education is a way of acquiring life skills and competences. Moreover, in the case of migrants, participation in entrepreneurship education would lead, among others, to their social integration and would help them reap not only the benefits of setting up and operating a business, but also those of developing appropriate competences that would better prepare them for inclusion in host societies.

5. Conclusions

The theoretical and literature review of the topic showed that, in the last two decades, the EU has made systematic efforts to develop policies and initiatives for ethnic entrepreneurship education. Based on the guidelines of official policy texts and on national strategies and making use of EU funding tools, each member state has implemented relevant actions and projects. The role of third sector institutions has been significant in this effort; they have had varying degrees of involvement and

contributed to the promotion of entrepreneurship education interventions in order to boost ethnic entrepreneurship (Rath, 2011). Although policy texts go back to 2000, due to the last decade's migration crisis, new questions have arisen concerning the entrepreneurship education of ethnic groups, while discussions are taking place in an attempt to determine how to turn the particular challenge into an opportunity for member states.

This debate should certainly take into account not only the diversity of ethnic groups, but also the different causes of migration; for example, different measures must be put in place in the cases of forced displacements, mainly with regard to asylum seekers. So far, the review has shown that organisations that provide education courses on entrepreneurship primarily target acquisition of knowledge and generic skills relevant to the entrepreneurial activity. What is more, even in cases of competence-oriented education, there is criticism about a value-free education detached from everyday life and economic reality, a fact that could lead to another kind of impasse (Popovic, 2014). The answer to this criticism could be related to the new competence-oriented entrepreneurship education which targets, among others, the promotion of critical and sustainable thinking. Although there have been six years since the EntreComp's publication (Bacigalupo *et al.*, 2016), there are only few projects for migrants which have been implemented applying EntreComp as a tool, setting as an objective the acquisition of entrepreneurship competences instead of knowledge and some business skills. Thus, more efforts should be made in this direction, since the entrepreneurship education for ethnic groups of the population, although not a panacea, could pave the way to employability and acquisition of competences useful for participating in social and economic life, both of which are driving forces for social inclusion.

This paper contributes to relevant literature by showing that the entrepreneurship competences obtained by migrants through the educational process could also serve as life competences, contributing to their integration into the host society. Empirical evidence is scarce and fragmented. For this reason, the authors highly recommend that empirical research using appropriate competence-validation tools should be conducted in the future.

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A LITERATURE REVIEW ON THE RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH IN BALKAN COUNTRIES

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Abstract

The process of globalisation has made the world a single global village. This process is now irreversible; it was primarily caused by trade and investment across economies resulting in strong worldwide market for goods, services and capital. Foreign Direct Investment is one of the important outcomes of globalisation. The world is full of development opportunities, covering the entire range from countries that have just begun to modernise to the richest countries. FDI help countries secure financing for their economic growth. These investments promote economic growth in both the host country and the country of origin. The host country benefits from FDI by financing projects planned, developing new technologies and generating new jobs. Investing companies benefit from the expansion of markets and, consequently, the growth of their shares in international markets. This paper targets and discusses the main theoretical aspects of existing literature pertaining to FDI. It starts with some definitions given by different institutions or authors regarding FDI, continuing with a history of foreign direct investments from ancient times to the present.

JEL Classification: F036, O15, Q56

Keywords: (FDI) Foreign Direct Investment, Economic Development/Growth, Balkan Countries International Trade

1. Introduction

“Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control of an enterprise resident in an economy other than that of a foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate) by a resident entity originating from another economy (foreign direct investor or parent enterprise).”

The topic of FDI and economic growth is very popular in conditions of development of the contemporary world and modern economics. FDI seems to be an irreplaceable factor for growth. Additionally, the benefits of FDI cannot arise automatically.

The region's current socio-economic conditions provide an impetus for Balkan State governments to induce more foreign investment as a mechanism for fostering economic growth. However, regardless of common incentives to attract more FDI inflow, some state-governments vary in their capacity to effectively do so. Foreign Direct Investment (FDI) helps countries secure financing for their economic growth.

FDI promotes economic growth in both the host country and the country of origin. The host country benefits from FDI by financing projects planned, developing new technologies and generating new jobs. Investing companies benefit from the expansion of markets and, consequently, the growth of their shares in international markets. The world is full of development opportunities, be it for countries that have just begun to modernise to the richest countries. While central banks control money levels in the economy and politicians control fiscal affairs, these two groups often cannot drive economic growth without external help.

According to the World Bank, foreign direct investment worldwide has had a general upward trend from 1970 to 2020. This growth has been fed by increasingly close integration of national economies, driven by worldwide competitive pressures, economic liberalisation, and the opening-up of new areas to invest in.

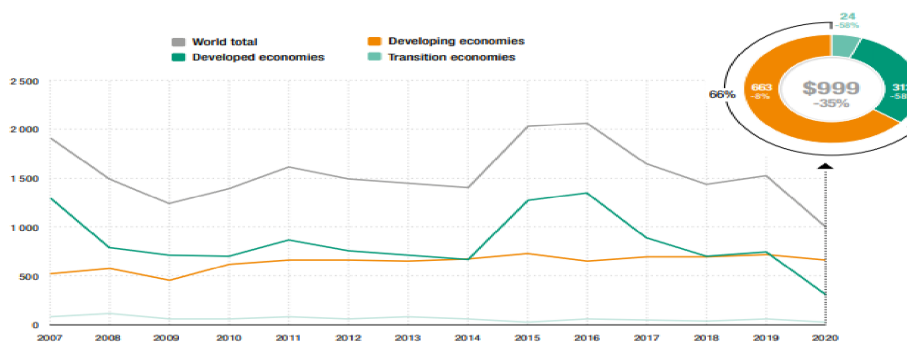
FDI is often vulnerable to economic and various other types of shocks. Past studies have noted the negative effects of financial crises (Dornean, Işan, and Oanea 2012; Dornean and Oanea 2015; Poulsen and Hufbauer 2011; Stoddard and Noy 2015).

In my paper, I will deal with FDI in the Balkan region for the 2000-2022 period. For this period FDI inflows, global and by group of economies, plummeted in developed and transition economies, falling by 58% in both. In developing economies FDI decreased by a more moderate 8% (UNCTAD, 2021).

According to the World Bank, after 2007, we noticed some significant declines in FDI values, as a result of economic shocks. In 2008 we saw a decrease in FDI, which is explained by the financial crisis the world went through in that period. In 2018 there was also a significant decrease in FDI. In that year global trade spats, rising interest rates and Brexit uncertainty affected most stock indices in their worst

year since global financial crisis. In 2020 foreign direct investment was severely hit by the COVID-19 pandemic. Globally, FDI flows in 2020, fell by one third to \$1 trillion, well below the low point reached after the global financial crisis a decade ago. Among the developed markets, Europe was hit hard. The decline of foreign direct investments is a big concern, because international investment flows are vital for sustainable development in the poorer regions of the world.

Figure 1. FDI inflows, global and by group of economies, 2007-2020 (Billions of dollars and per cent)



Source: UNCTAD

As we can see from Fig.1, in the years 2008, 2018 and 2020 global foreign direct investment (FDI) flows decreased. In 2020, foreign direct investment globally reached \$1 trillion, from \$1.5 trillion in 2019 (Figure1). This is the lowest level since 2005 and almost 20% lower than the 2009 trough after the global financial crisis. Foreign investment in developing economies and transition economies has been more constant over the last ten years compared to developed economies. Aggregate inflows in Europe plummeted by 80% reaching only \$73 billion in 2020 compared to 2019 (UNCTAD, 2021). In the conditions of the decline of foreign direct investments in 2020 and 2021, some notable developments took place in terms of the international investment agreement (IIA). These developments include the entry into force of EU's agreement to conclude all intra-EU bilateral investment treaties and the emergence of new regional IIAs.

Following the international investment agreement, on November 10, 2020, six economies of the Western Balkan endorsed the Regionally Accepted Standards for Negotiating International Investment Agreements, (UNCTAD 2021). This agreement includes the 6 countries of the region, namely, Albania, Bosnia and Herzegovina, Kosovo (United Nations Administrative Region, Security Council Resolution 1244 (1999)), Montenegro, North Macedonia, and Serbia.

Saul Estrin and Milica Uvalic explore the impact of foreign direct investment on the economies of Western Balkans during their transition to a market system. They have argued, on the basis of numerous indicators, that institutional, economic and political features of Western Balkan countries have probably restricted potential FDI spillover. Furthermore, spillover effects may have been limited because this region has attracted relatively small amounts of FDI and because relatively little FDI has gone into manufacturing as the main sector responsible for these countries' exports. In their paper, Bilal Sucubasi, Borce Trenovski, Berkan Imeri and Gunter Merdzan (2021) have confirmed that foreign direct investment inflows in the Western Balkans, as well as real economic growth affect domestic investments, both significantly and positively.

1.1 The purpose and research methodology of the paper

The purpose of this paper is to assess the relationship between foreign direct investment (FDI) and socio-economic environment variables in Balkan countries. The paper develops a data set and an econometric model to analyse FDI flows, poverty and socio-economic relations at the macro-level panel data set.

Research Questions: The questions raised for dealing with the actual FDI situation in Balkan countries, are:

- What is the impact of FDI on economic growth in Balkan Countries?
- Is there suitable socio-economic environment for attracting FDI into these countries?
- Which factors influence FDI flows?
- How does FDI affect developing countries?
- What are the main FDI determinants in the two countries involved?
- What are the common features and the major differences in behaviour observed concerning the FDI these countries received over the 2000s and 2020s?

Methodology: The paper starts with a theoretical treatment of FDI to continue with an empirical analysis of the effect of FDI on economic growth in the countries of the Western Balkans.

At the centre of the theoretical treatment are the models of economic growth in the field of economic sciences. However, first, as seen in Figure 1, developing countries have a more stable fluctuation of FDI, even in the theoretical treatment; very little is discussed about small developing countries, leaving a gap regarding the importance of FDI in such places. For this reason, I was prompted to conduct an empirical study regarding the effect of FDI on the countries of the Western Balkans. From the empirical analysis in this paper, we expect that the generalising opinions or conclusions about FDI are in line with economic theory.

For the realisation of this paper, I will rely on theoretical approaches by combining two main tools for study: the theoretical models of FDI in economic growth, e.g., Solow model, Borenstein, De Gregorio & Lee model, Mankiw model, Easterly model, and econometric analysis with secondary data obtained from sources such as World Bank, UNCTAD and EUROSTAT.

2. Literature review and some data collections

This part targets and discusses the main theoretical aspects of existing literature pertaining to FDI. It starts with some definitions given by different institutions or authors regarding FDI, continuing with a history of foreign direct investments from ancient times to the present.

2.1 What Is Foreign Direct Investment?!

Nowadays, domestic capital is not sufficient for fast economic development and competition in foreign markets. History has shown us that countries need foreign financing to ensure sustainable, long-term economic growth. Countries need Foreign Direct Investments as a means of financing the construction of new infrastructure and the creation of jobs. On the other hand, multinational companies benefit from FDI by expanding their footprint in international markets. In this context, Foreign Direct Investments can be a very important alternative for a faster and more competitive economic growth.

The term Foreign Direct Investment (FDI) is used to describe a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy (OECD).

Lasting interest means the existence of a long-term relationship between the direct investor and the direct investment company as well as a significant degree of influence on the latter.

The terms “direct investor” and “direct investment enterprise” are defined by the IMF and the OECD as follows: A direct investor can be an individual, a legal or natural person, a public enterprise, a government, a group of individuals or legal entities and/or individuals, who own a direct investment enterprise active in a country outside the direct investor’s country of residence. A direct investment enterprise is a legal or physical entity of which a foreign investor owns 10% or more of the shares or - has the voting power of a commercial company or the equivalent of a partner.

According to the same source, the importance of FDI is very crucial because:

- a. FDI is a key-element in international economic integration because it creates stable and long-lasting links between economies.

- b. FDI is an important channel for the transfer of technology between countries, promotes international trade through access to foreign markets, and can be an important vehicle for economic development.

According to the EU Statistics Office (EUROSTAT), FDI is the category of international investments that reflects the objective of realising sustainable interest by an investor of one economy from an enterprise resident in another economy. A direct investment enterprise is one in which a direct investor owns 10% or more of the ordinary shares or voting rights (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

According to the World Bank (WB), foreign direct investment is the net inflow of investment to realise sustainable management interest (10% or more of the voting shares) from the enterprise operating in an economy other than that of the investor's. This is the sum of equity capital, reinvestment of earnings, other long-term capital and short-term capital, as shown in the balance of payments

Foreign direct investment (FDI) is an ownership stake in a foreign company or project made by an investor, company, or government from another country (Adam Hayes, 2022).

Foreign investment can be defined as the transfer of movable or immovable assets in whole or in part, from the country of origin to the host country for the purpose of using it to improve the welfare of the host country, under the control of the owner (Sornarajah, M. 2010).

Foreign direct investment can be defined as a long-term investment made by a firm or an individual in one country, into business interests located in another country, with all risks and profit opportunities (Emre Koluman, 2020).

If we have to give a certain definition of what FDI is, we will see that it is difficult to give an exhaustive answer. Due to the fact that foreign investors in different countries have different characteristics and operate in accordance with the legislative and regulatory framework of their countries, this causes the definition of FDI to change. FDI is much more complex in nature than portfolio investment, as it often involves the transfer of basic assets, such as technological know-how, and managerial and organizational skills. Consequently, the definition of FDI cannot practically be considered in isolation from the definition of multinational companies, which is also difficult to define. The main definitions of FDI can be found in the Balance of Payments Manual of the International Monetary Fund and the 1999 World Investment Report of the United Nations.

2.2 Historical Development of Foreign Direct Investments

The great accumulation of capital in world centres leads to the expansion of investments in other parts of the globe. One of the earliest examples of foreign direct investment dates back to 1500BC in the Phoenicians civilization. The Phoenicians

traded with the countries around the Mediterranean Sea, setting up outposts in those countries. These lasting outposts are to be accepted as a permanent presence in foreign countries. A few centuries after the Phoenicians civilization, the Silk Road trading routes was built to connect Europe with Asia, and this is considered a foreign investment in the countries it passed through. In the early fifteenth century and onwards, Western European states began to establish permanent colonies in the locations they had previously visited because of their trade missions. These can be described as the world's first multinational corporations.

FDI started in the beginning of the 19th century. In that period FDI started to grow at a faster pace. This growth has been influenced by a number of factors the most important of which is probably the change of the market in which the firms operated. The stock of FDI in 1914 was valued at around \$14 billion and the UK was the largest source of investment, followed by the United States and Germany; on the other hand, the United States was also the largest recipient of FDI. (International Finance Corporation 1997).

Table 1. The Global Stock of Foreign Direct Investment by Recipient Area (\$ billion)

	1914
Developed Countries	5.2 (37.2)
Developing countries	8.9 (62.8)
World	14.1

Source: Dunning, (198 Table 3.2)

At the beginning of the 20th century, a large part of the world's infrastructure was developed by foreign direct investment. Some examples of such investment are electric power in Brazil, telecommunications in Spain, and German chemical companies expanding outside Germany. British firms invested even earlier in manufacturing consumer goods abroad.

Multinational companies began to gain their position in foreign markets not only through trade but also by investing in those countries in the form of foreign direct investments. Globalisation allowed these firms to exploit all world markets, and, with the help of new technology, it became possible for FDI to spread rapidly. Although some scholars see FDI as a solution to various global problems, on the other hand, other scholars think that FDI is the very instrument through which global calamities are caused.

Nowadays, the effects of globalisation are re-dimensioning the way governments, businesses and families are organising their life activities. Regardless of the

recognition of this phenomenon and its importance, globalisation remains among the most important debates regarding the impact it has on the economy, society, and politics.

Multinational companies are the business form that carries globalisation around the world, and FDI is an important method firms use for their global growth strategies. Multinational companies can enter a foreign market through foreign trade by exporting, which is the simplest and least risky way by which a firm can enter the foreign market. When companies enter a foreign market through direct investments in production or in other ways and exercises significant control, then we are dealing with FDI (Shenkar, 2007).

Shenkar (2007) describes the difference between FDI Flow and FDI Stock:

1. The flow of FDI refers to the amount transferred during a certain period of time. FDI is outgoing when it leaves a country, while it is ingoing when its flows into a country, i.e., when foreign firms undertake direct investments in the host country.
2. FDI stock refers to the total accumulated value of foreign-owned assets at a given time.

According to Ivy Panda, (2020) the labour market is greatly affected by the effects of globalisation. On the one hand, it negatively affects the competitive labour markets of a country by bringing workers from other countries but, on the other hand, it also has a positive effect because it redistributes offer, thus providing more homogenisation. Both of these opposing viewpoints can be supported by Foreign Direct Investment. In order to see how FDI affects the labour market, specific studies should be done. At the beginning of the 20th century, developing countries focused on exploiting their natural resources and building national infrastructure. To finance these investments, more and more foreign direct investments were required.

The rise in prices in the 1970s had an impact on foreign direct investment by encouraging the growth of FDI in the hydrocarbon sector. On the other hand, the surplus in the balance of payments in these countries helped them provide their own means to finance their projects and to recycle money in developing countries through loans. Under these conditions, countries are more attracted towards loans than towards attracting FDI.

In 1980, the prices of goods and services began to fall, interest rates increased, countries were beginning to feel the first effects of the economic review consequent to the debt crisis. Countries that at the beginning of the 1970s had a domestic economic orientation were suffering the consequences of low productivity, lack of competition and isolation from the global economy. Under these conditions, these economies began to draft new policies for a more sustainable economic development, turning their economies towards the private sector, international trade, and competition. A series of measures were taken to make these policies effective, such as reduction of tariffs, drafting policies to attract FDI and facilitating conditions for the development of private business. All these led to the increase of foreign direct investments after the 1980s.

In the 1990s, the privatisation of public properties and the opening to foreign markets led to an increase in the stock of foreign direct investments throughout the world.

After 1990, foreign direct investment (FDI) flows continued to set new records in 1999 when global inflow reached \$865 billion. This global increase of 27% was not balanced in the three-country group/three country-groups. FDI flows to developing countries reached a value of 208 billion, an increase of 16% in 1998 (UNCTAD, 2000). Looking at it from a short-term perspective, the main reason for the increase in foreign direct investments is attributed to the opening of markets as a result of the removal of economic borders between countries. Looking at it from a long-term perspective, the increase in foreign direct investments is attributed to international production — production under the common governance of transnational corporations.

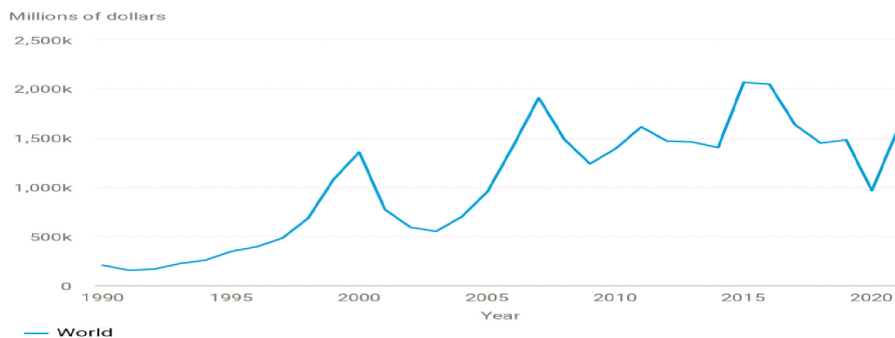
In this period, the global gross product gross world product attributable to foreign was about one-tenth of the global GDP, compared to 5 in 1982. The ratio of the stock of FDI to global GDP increased in that period from 6% to 16%.

There are several reasons for the expansion and deepening of international production in that period according to UNCTAD; (a) liberalisation of FDI (and related) regimes and (b) the recognition that FDI can contribute to a firm's competitiveness.

2.3 Current Developments

Foreign direct investments are very important nowadays in the international arena. UNCTAD's World Investment Report (2022) shows that global foreign direct investment inflows (FDI) reached the value of \$1.3 trillion in 2000, \$1.9 trillion in 2007, \$2 trillion in 2005, the highest value since 2008 crisis. Global foreign direct investment (FDI) grew 64% in 2021 compared to 2020, reaching nearly \$1.6 trillion.

Figure 2. Foreign direct investment inflow, 1990-2021



Source: UNCTAD World Investment Report 2022

Starting from 2015 FDI present a downward trend, for three consecutive years Global FDI flows also continued their slide in 2018, falling by 13% to \$1.4 trillion from a revised \$1.6 trillion in 2017. In the first half of 2019, global FDI flows also decreased by 20% compared to the last half of 2018. Despite this decline, direct investments are still one of the most important factors in the global economy for both developed and developing economies.

The Covid-19 epidemic had a devastating effect on countries' economies, quickly affecting all businesses. Developed and developing countries designed economic support programmes to deal with the crisis. According to UNCTAD, FDI fell dramatically in 2020 during the COVID-19 pandemic Global FDI flows dropped by 35% in 2020. This is almost 20% below the 2009 financial crisis level.

Developed countries took the biggest hit, where FDI inflows fell by 59%, while developing countries had a moderate decrease of only 9% in FDI flows.

This period was also significant for FDI: although the pandemic had a negative impact on FDI flows, it -also provided an opportunity to reflect on it.

2.4 Types of Foreign Direct Investment

FDI is one of the three components of capital flow, which are divided into two types, namely Foreign Direct Investment by target and by motive.

Types of Foreign Direct Investment by target -There are two main reasons that businesses become multinational: to serve a foreign market, thereby increasing their profits, and to obtain lower cost inputs. These two main reasons are used to distinguish between the two main types of FDI: horizontal and vertical.

a. Horizontal FDI. A company establishes the same type of business operation in a foreign country as it operates in its home country. This is called horizontal when companies duplicate the same business activity in other countries. The reason why these companies enter a foreign market is the high economic costs of exporting their products to those countries, e.g., transportation costs, customs fees, the distance from economic centres, etc. Yokota (2005), based on the view of Helpman (1984), Markusen (1984) and the empirical study of Hanson *et al.* (2001), analyses that horizontal FDI mostly aims to sell products in markets similar to the size of that in host countries, while vertical FDI aims to export products from the mother country to the host country.

b. Vertical FDI. Vertical FDI is also known as efficiency seeking and occurs when multinational companies invest in different countries, fragmenting production in order to produce at low cost. One of the main reasons for product fragmentation is the price of production or input factors. When prices of production factors or inputs are low in host countries, the company has an interest in investing a part of its product manufacturing there because it lowers the cost. For example, many companies carry out part of their production processes in countries that have a relatively cheap labour cost. Besides, vertical FDI seeks to use advanced technology if its use minimises the cost of production (Alma Zisi, 2004).

c. Merge and Acquisition. Cross-border merges occur when operations assets of firms from multiple countries are combined to establish a new entity. When firms are in financial difficulties or they want to become more powerful in markets, two or more firms may merge into one. The most common form of mergers and acquisitions is aimed at firms in developed countries. Large corporations make acquisitions of other firms (usually in host countries) for reasons of expansion. Mergers of firms mostly offer positive advantages, as they increase efficiency, reduce production costs, and provide opportunities to expand in the international market.

d. Investment. Greenfield investment is the main target of a host country. It can lead to linkages to the international marketplace. From the very beginning Investments aim to produce goods and services at the lowest cost, using the production capacities of the host country; and are supported by the latter, due to the creation of new jobs, providing further qualifications for employees and influencing the transfer and adaptation of technology. These investments also serve as an incentive for local companies in the host countries, impacting the increase of competition in the country. However, these investments transfer the largest percentage of the benefits they provide to their mother country, positively influencing its economic growth. This is seen as one of the earliest disadvantages of investments for the host country.

Types of Foreign Direct Investment (by motive)

a. Resource seeking. Investment that seeks to acquire factors of production that are more efficient in the host country. It is a strategy that means the main aim of the company is acquiring in foreign markets particular types of resources not available in the home country, or available abroad at a lower cost (IGI Global).

b. Market seeking. It is a strategy that means companies invest to exploit the possibilities granted by foreign markets, motivated by investor interest in serving domestic or regional markets.

c. Efficiency seeking. FDI that comes into a country seeking to benefit from factors that enable the investor to compete in international markets.

d. Strategic asset seeking. First proposed by John Dunning (Dunning, 1993, Dunning & Narula, 1995),

it is a tactical investment to prevent the gain of resources by a competitor. Strategic asset seeking describes FDI by an emerging economy's MNEs (e.g., Deng, 2009; Rui & Yip, 2009; Cui, Meyer & Hu, 2014).

3. Conclusions

The analysis above shows that there is a positive correlation between FDI and gross domestic product (GDP) growth, but also between FDI and the state aid granted within the Balkan region. The growth trend of the GDP predicted the trend in FDI, while, with a time lag of two periods, the trend in the state aid granted predicts the trend in FDI.

In recent years, the process of economic development of countries helped by FDI has increased the opportunity for economic growth, improved the balance of payments, increased exports through improving the trade process and implementing a new knowledge environment, created a more skilled labour force and increased employment rate.

Countries in the region, including Albania, have had positive effects from foreign direct investments in their economy. FDI can be used as a powerful growth driver for the local economy because of increasing capital inflow into the country, introducing new technologies, increasing productivity, improving environmental conditions, creating jobs, raising living standards. Balkan countries still have high and underdeveloped potential in attracting FDIs in many sectors, such as manufacturing, agro - processing, agriculture, technology, tourism.

According to a report of the “Albanian Investment Development Agency”, there are ten reasons why an investor should choose the Balkan region, including Albania, namely, strong economic performance, favourable geographical position, free market entry, business friendly legislation, high potential for investments, low taxes, labour force, increasing foreign investment flows, improving infrastructure and improving the quality of life; however, it still needs to create some capacities. One of the most important sectors with high potential for growth is agriculture and agro industry, which requires investments to develop and increase market competitiveness.

There are so many reasons why the study of FDI is important and some of them are presented below:

- a. FDI is associated with the transfer of technology.** Thus, Moosa (2002) gives the main reasons why foreign direct investment should be studied, arguing that FDI is associated with the transfer of technology, as well as managerial, technical, and marketing knowledge.
- b. Market size is related with foreign direct investment.** A special place is occupied by the main determinants of FDI. Chakrabati (2001), Walsh and Yu (2010) argue that market size is among the main determinants of foreign direct investment absorption.
- c. Human capital is related with FDI.** In their works, De Mello (1997), Noorbakhsh *et al.* (2001) and Campos and Kinoshita (2002) argue that there is a positive relationship between FDI and human capital for countries that have a certain level of human capital. While Lipsey and Kravis (1982), Edwards (1990) and Easterly (2001) point out that the host country's infrastructure plays an important role in attracting FDI.
- d. FDI affects wages.** Lipsey (2002) argues that FDI affects the wage level as a result of the entry of foreign firms or their participation in a certain industry. According to Wang (2009), FDI conveys positive effects as it transfers advanced technology.

- e. **FDI affects the flow of capital.** Moosa (2002), analyses the effects of FDI in host countries. According to him, FDI positively affects the flow of capital. Vernon's (1966) Product Cycle Theory explains interactions between ownership-specific advantages and location-specific advantages, best describing the role of technology in international trade.
- f. **FDI affects financial markets.** Aliber (1970) explained FDI through the relationship of financial markets where foreign investing firms have to cope with the imperfections of capital markets and exchange rates.
- g. **FDI is oriented towards the markets.** Trajko Slaveski and Pece Nedanovsk, in their work on Balkan countries, point out that Bulgaria has been among the more successful Balkan recipients of FDI, while Greece has been a major source of FDI for the transition economies of the Balkan region. Greek investment is driven in part by the availability of low-cost labour in the neighbouring transition economies.

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