KnE Social Sciences

Knowledge E
enriching | engaging | empowering

Conference Paper

Foreign Direct Investment and Consumer Finance Companies: What Are the Determinants?

Consuela-Elena Popescu

Bucharest University of Economic Studies, Romania

Corresponding Author:
Consuela-Elena Popescu
consuela.popescu@rei.ase.ro

OPEN ACCESS

Abstract

In the context of the globalization of the financial sector, notably of the non-banking sector within the European Union member states of the last decades, the assets of the non-bank sector have increased in the last years considerably. Taking into account that the regulatory requirements for consumer finance companies are more permissive than for banking financial institutions and that the financials of the sector are not available for almost half of the sector this paper tries to explain the main determinants of foreign direct investments in consumer finance companies for a panel of European Union member states over the period 2006-2013. My approach is using the panel methodology but testing different panel specifications in order to choose the model that will better explain FDI -- fixed effects. Findings show that the percentage of people with internet connection, the quality of the regulatory environment, the trade to GDP, the cost of business start-up procedures, the time required to start a business, the government final spending and the labour costs are the major determinants of foreign investments in consumer finance companies.

Keywords: consumer finance companies, foreign direct investment, non-bank financial sector, multinationals, panel data.

Jel Classification Codes: G23, G15, F23.

1. Introduction

In the context of the globalization of the financial sector, notably of the non-banking sector, within the European Union member states of the last decades, I considered the study of the impact of the different macroeconomic and microeconomic variables on the investment decision of the non-banking financial institutions of great importance. According to the ECB, the assets of the non-bank sector have increased in the last years to 19 trillion euros (2014). However, most FDI studies focused mainly on banking activities, leaving the gate open to study opportunities on consumer finance companies.

Foreign direct investment has become particularly important in recent decades as an alternative to bank loans and securities issuance because they represent a capital

inflow to the state. FDI is a source of income for the economy, encourages economic growth, aids the technological development of a country and its factors of production, stimulates domestic investment as domestic producers will focus on increasing economic efficiency and improving the quality of products and services offered, helps to restructure and privatize domestic companies in the sense of finding ways to increase their competitiveness. According to G.M. Agiomirgianakis, D. Asteriou, K. Papathoma, et al. (2003) FDI is defined as capital inflows resulting from multinational companies' activities [30]. Consequently, those factors that determine the behaviour of multinational companies are also those that directly influence FDI.

Following the prior work about NBFIs, the current article tries to reduce the focus of the investment decision to consumer finance companies at European level. According to ECB Statistics Glossary, Financial corporations engaged in lending are Corporations and quasi-corporations, classified as OFIs, specializing mainly in asset financing for households and NFCs. Included are also firms specializing in financial leasing, factoring, mortgage lending and consumer lending.

According to R.B. Davies and N. Killeen (2015), non-banking financial institutions are a "diverse range of entities subject to regulatory requirements more permissive than banking financial institutions [5]. The OFI sector includes financial corporations involved in lending such as consumer loans, mortgages, financial leasing (including aircraft leasing), factoring firms, investment vehicles (SPVs), financial corporations (FVCs) engaged in activities securitization, financial holding companies, investment funds and securities and derivatives dealers". ECB states that consumer finance companies sit under `Financial corporations engaged in lending'' and their main objectives vary from `financial leasing, hire purchase, factoring and the provision of personal or commercial finance''.

Information about other financial institutions (OFI) is dependent on the internal regulation of each country, however, it is widely accepted that there is a gap of knowledge about their activity and performance as they are much less regulated. Information about them can come from `counterparty sector information (money market institutions loans to other financial institutions)''.

Assets of OFI have increased in the past 10 years as a result of lighter regulatory requirements imposed by the regulators (fact which started to change in the past years in case of some countries), because of demographic changes and easier access to credit to people from rural areas but also demand of credit from an ageing population and last but not least the society's evolution to digital platforms.

The focus on OFI was largely due to the European Commission's 'Capital markets union' initiative, which aims to maximize the benefits of the capital market and OFI as alternative sources of funding. Thus, the importance of OFI as a source of financing of economic activities and liquidity injection in the market is deduced. Furthermore, in order to better monitor the potential systemic risk that could be created by poor supervision by OFI regulators and supervisors, this paper will bring more transparency to the factors that determine foreign direct investments in OFI and, implicitly, their situation will be more transparent for the authorities.

2. Literature Review

Literature examining the impact of different macroeconomic variables on foreign direct investment is broad and empirical studies show that a multitude of theoretical models are able to explain the investment decision of companies. While the neoclassical model (which explains international trade as a result of capital return differences) is criticized by the perfect competition hypothesis, J.H. Dunning's (1979) ownership, location, internalization has proven to be an alternative realistic explanation of FDI flows through the involvement of multinationals which are considered to own the market power [12]. The latter model combines ownership, localization and the benefits of internalization as the determinants of FDI. The combination of property benefits, site benefits (including market size and features), cost of factors of production, transport costs and other factors (such as political regime and infrastructure quality) have been shown to have significant explanatory power in the OLI model. An alternative framework for FDI analysis combining ownership with the location, technology, and country specifics was provided by the new trade theory (which explains both the determinants of vertical and horizontal FDI). Vertical FDI resides in the motivation of companies to move production goods requiring an unqualified but intensive workforce in locations that are rich in these resources, whereas horizontal FDI translates into the desire of companies to place production closer to the customer while maintaining transport costs at a low level. Thus, in his knowledge-capital model, J.R. Markusen (1998) is combining the two types of FDI and asserts that similarities in market size, resource endowment, and transport costs determine the decision to achieve horizontal FDI, while differences in inputs determine commitment to achieve vertical FDI [31]. The risk diversification hypothesis explains another category of multinationals that reflects risk aversion and attempts to diversify risk by initiating FDI. Risk factors (such as market risk, exchange rate and interest rate), as well as fiscal policy variables (such as corporate tax rates, tax concessions and tariffs

and other incentives for tax and financial investment) also influence investment decision. Therefore, it is important to note that foreign direct investment should not be explained by unique theories, but by a combination of factors such as property advantages, market size, characteristics, costs of production factors, transport costs and protection factors and risk, the political variables.

R.B. Davies and N. Killeen (2015) analyse for the first time the investment decisions of foreign non-banking subsidiaries in 27 European countries during 2004-2012. They build a company-level data model using the Amadeus database of Bureau van Dijk [5]. This data contains financial information for companies across Europe such as: date and place of establishment of the company, number of enterprises, number of employees, location of foreign investor and classification of the company sector. These company-level data combined with country-level data (cultural, macroeconomic, geographical and institutional aspects) are incorporated into D. McFadden's "conditionally legitimate" model (1974) to determine the location of the investment. Thus, the investment decision of an NBFI relates to the choice of a profit maximization location that depends on the host country's specificities (market potential, distance, labour costs, quality of education, unemployment rate, profit tax, time to prepare and pay for all taxes as a measure of bureaucracy (as introduced by B. Kalinova, A. Palerm and S. Thomsen, 2010), the agglomeration index (introduced by Head and Mayer, 2004 refers to the idea that firms are attracted to locations where they find similar firms, which signals to new investors that the host country is to be trusted), the quality of the infrastructure, the use of the same currency, the former colony-empire relationship, the same legal system, the same language, a common border. Results show that the probability of a country being chosen as a location for FDI is negatively correlated with market potential and distance, but increases with the size of the host country. In addition, many of the control variables used to stimulate vertical FDI, such as higher corporate tax rates and labour costs lower the probability of decision-making in favour of FDI. Production costs are proving to be key determinants of FDI placement decisions. Gravity factors, such as whether the home and host countries share the same legal, frontier, language and currency system increase the likelihood of non-bank direct foreign investment in the majority of the cases. Host country GDP, infrastructure and agglomeration effects positively influence the investment decision, while corporate tax reduces it. In addition, the same language and the same legal system are also determinant factors that influence the investment decision in a positive direction.

A. Bevan and S. Estrin (2002), some of the pioneers of using panel data in analysing the factors that determine direct bilateral investment flows between western and eastern

countries, mainly in the EU, conclude that the the unitary cost of labour force, the market size and proximity are the greatest influencers on FDI [7]. Also, announcing a country's EU accession calendar turns out to be an important factor in the company's investment decision. Moreover, D. Wheeler and A. Mody (1992) and L. Resmini (2001) investigate the impact of institutional factors on FDI [8]. The results show that in the 1980s, short-term incentives offered by governments, such as reduced taxes, have limited impact on the decision of multinationals as these stimulators are not needed in the context of an economy with a good infrastructure, specialized suppliers and expanding domestic market.

F. Moshirian (2001) studies for the first time factors that influence FDI in the banking sector using time series analysis for the period 1983-1995 [4]. Empirical results indicate that foreign assets of banks in the UK, Germany and the US contribute to the expansion of FDI from both bank and non-bank investors. Furthermore, the author demonstrates that there is a very close link between FDI in the banking system and FDI in the non-banking system (for example, the existence of previous investments in other areas encourages and increases the confidence of banks in external investment) and the existence of bilateral trade between countries facilitates the opening of subsidiaries in the host country. Another interesting aspect is that if the economic growth in the home country is higher than the economic growth in the host country, banks will prefer to focus on activities in the home country. The exchange rate is also a decisive factor in the FDI flow; thus, a depreciated currency in the host country means lower costs and higher purchasing power for banks seeking investment, which actually encourages investment.

3. Data and Research Methodology

To start with, data at company level for EU-28 member states was taken from Bureau van Dijk's Orbis database for last year (2018) and it comprises all consumer finance companies corresponding to NACE Rev. 2 649 -- Other financial services activities, except insurance and pension funding reporting to Orbis in order to have a look at where do the major investors in consumer finance companies come from and where do they prefer to invest. Hence, data for active companies set up after 2000 was collected, subsidiaries having foreign shareholders (ultimate owner owning together 10 percent and who are located anywhere) for 28 EU member states. The country where investor is based was taken as well as a way to analyse who are the biggest investors of FDI in Europe -- in this sense GUO (global ultimate owner definition from Orbis database

is being taken -- a GUO is an investor who holds over 50 percent of the shares of the company's equity and whose location can be sought by their country ISO code).

The dataset comprises information about 993 consumer finance companies that have reported to Orbis as following the above mentioned criteria. Out of this 993 companies, 713 have more than 10 employees while the rest of 280 have between one and 10 employees.

Table 1 shows that from the sample of 690 consumer finance companies found in Orbis, a small number of countries represent the main recipients of foreign direct investment in consumer finance companies: Great Britain (28.7 percent), Ireland (14.4 percent), Cyprus (13.6 percent), Luxembourg (9.9 percent), Spain (3.3 percent). When it comes to the home countries by GUO -- Global Ultimate Owner (as defined previously) we observe that similar to Davies and Killeen's findings, OECD countries are the main investors: US (18.7 percent), Great Britain (10 percent), Germany (8.2 percent), France (5.2 percent), Netherlands (5 percent) as shown by Table 2.

TABLE 1: Host Countries of Consumer Finance Companies Foreign Affiliates Incorporated in the EU, 2000-2018.

Top 10 Host Countries	N	%
Great Britain	285	28.7%
Ireland	143	14.40%
Cyprus	135	13.60%
Luxembourg	98	9.90%
Spain	33	3.30%
Finland	30	3.00%
Sweden	30	3.00%
Belgium	28	2.80%
Netherlands	25	2.50%
Estonia	25	2.50%
Total 993		

Source: Orbis, Bureau van Dijk

Furthermore, a split by number of employees has been made in order to try to assess whether they create real economic activity or if they are just brass plate entities, meaning they have legal existance in a country, however, no real physical presence and also to test if the previous ranking changes.

Thus two groups have been made: a group with 1-10 employees and another group with more than 10 employees. Table 3 shows that the top host country is still Great Britain (26.0 percent) followed by Cyprus (18.5 percent), Ireland (13.5 percent), Luxembourg (12.2

TABLE 2: Home Countries of Consumer Finance Companies Foreign Affiliates Incorporated in the EU, 2000-2018.

Top 10 Home Countries	N	%
United States	182	18.7%
Great Britain	98	10.00%
Germany	80	8.20%
France	51	5.20%
Netherlands	49	5.00%
Cyprus	48	4.90%
Russia	47	4.80%
Austria	37	3.80%
British Virgin Islands	33	3.40%
Cayman Islands	28	2.90%
Total 971		

Source: Orbis, Bureau van Dijk

percent) and Spain (3.6 percent) so practically we see the same countries in top five recipients of FDI in consumer finance companies.

TABLE 3: Host Countries of Consumer Finance Companies Foreign Affiliates Incorporated in the EU by Number of Employees, 2000-2018.

Top 5 Host Countries of firms with 1-10 employees	N	%	Top 5 Host Countries of firms with >10 employees	N	%
Great Britain	99	35.30%	Great Britain	186	26.0%
Ireland	47	16.80%	Cyprus	132	18.5%
Latvia	22	7.90%	Ireland	96	13.5%
Sweden	15	5.30%	Luxembourg	87	12.2%
Netherlands	13	4.60%	Spain	26	3.6%
Total	**280**		**Total**	**713**	

Source: Orbis, Bureau van Dijk

If a closer look is taken in the period just before the crisis of 2008-2011 and shortly after the end of it, a decrease of around 23 percent in the number of consumer finance foreign affiliates was observed in 2008 as opposed to 2007 followed by an increase of around 20 percent one year later (2009). We can assume this slow down was due to the economic downturn of the global financial crisis and the contagion which followed, however, we can see that the number rebounds back to levels closer to the ante crisis period in 2012-2013 once the effects of the crisis cease to exist.

In order to see what are the factors influencing a consumer finance company's decision to invest abroad by opening up new affiliates, annual data from Eurostat and
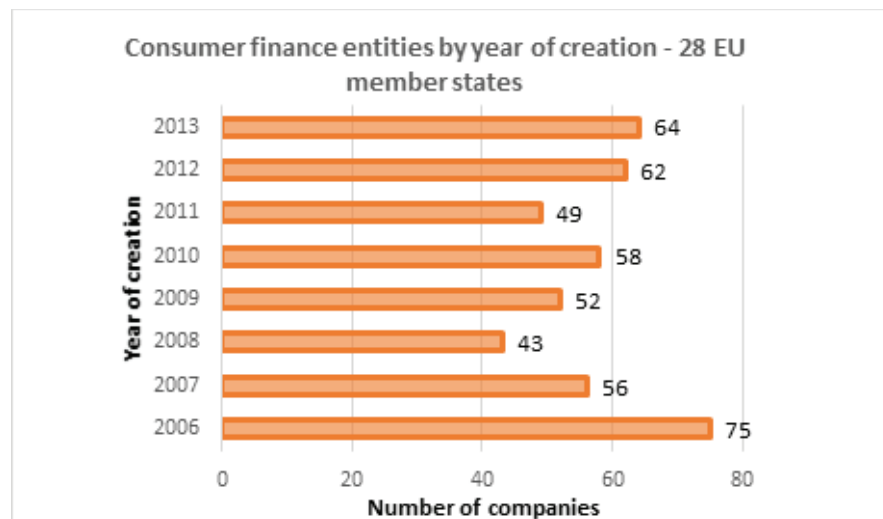
Figure 1: Creation of Consumer Finance Companies Foreign Affiliates in the EU-28, 2006-2013. (Source: Orbis, Bureau van Dijk).

World Bank has been taken for a panel of countries split in: developing (Hungary, Romania, Poland, Czech Republic and Croatia) and developed countries(Sweden, UK, Denmark) for the period 2006-2013.

Thus a panel in the below general equation will be specified:

$$Y_{it} = \alpha + \beta_{it} X_{it} + \delta_{it} + \gamma_{it} + \varepsilon_{it} \qquad (1)$$

where Y_{it} is the dependent variable -- calculated as net inflows of investment % GDP to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor; α is the constant; X_{it} is a k-vector of regressors: regulatory quality estimate, trade to GDP, internet connections as percentage of number of inhabitants, cost of business start-up procedures percentage of GNI, government spending, time to start a business in days, labour costs; δ_{it} and γ_{it} represent the cross-section or period specific effects; ε_{it} is the error term for i=1,2....M cross-sectional units for periods t=1,2....T; $\varepsilon_{it} \sim N(0;\sigma_\varepsilon^2)$, where M=8 and t=8.

The regressors used in the model are the following: regulatory quality estimate as a measure of the government's ability to formulate sound policies that permit and promote private sector development -- an indicator ranging from approximately -2.5 to 2.5 developed by the World Bank; trade to GDP represents the sum of exports and imports of goods and services measured as a share of GDP which indicates a country's openness to trade; internet connection is the percentage of people with Internet connection/number of inhabitants as potential customers for consumer finance companies - as customers would need to access digital platform in most cases in order to ask for a personal loan; the cost of business start-up procedures as percentage of

GNI as a measure of the procedures, time, cost and paid-in minimum capital required for a small or medium-size limited liability company to start up and formally operate; the general government final spending having as nature spending on infrastructure, health, education, etc. which can attract FDI, promote economic growth and increase productivity for companies; the time required to start a business in days in order to legally operate a business; the real unit labour cost as an indicator of the competitiveness of a country.

Thus the model is not combining only one theory which explains the inflows of foreign direct investment, but actually a combination of theories which have been developed over time but also an element of today's modern society -- internet connection per number of inhabitants, which is also a basic requirement for consumer finance company to operate in.

As the countries included in the model have different structures and economic developments the panel data was estimated using fixed effects as a way to leave the intercept to vary across time and countries (cross or/and period fixed effects specification). Coefficients were estimated using Panel Least Squares after checking the stationarity of the data with Levin, Lin, Chu test. In addition to this, Durbin-Wu-Hausman test was also applied to test the endogeneity of the data with White period standard errors and degrees of freedom correction.

4. Results

In order to avoid the existence of a regression which is not genuine, tests for unit root were performed as interactions between different types of non-stationary variables in panel data cannot be good predictors. Hence I used Levin, Lin, Chu test (2002), Breitung test (2000) and Hadri test in order to assess the robustness of the results.

The results in table 4 reject the null hypothesis of the data having a unit root at 5 percent in the majority of the tests employed, meaning that if we consider the majority rule that two out of three tests show the series is stationary then we accept the null hypothesis and conclude that the series are stationary.

The results of the least squares panel model are presented in table 5 with panel specification fixed effects, dependent variable being the inflows of foreign direct investment as percentage of GDP and all the independent variables as presented before: regulatory quality estimate, trade percentage of GDP, general government spending, time to start a business, labour costs and internet connection percentage of inhabitants, cost of business start-up procedures percentage of GNI.

TABLE 4: Panel Unit Root Tests Results.

Variables	Method		
	LLC	Breitung	Hadri
FDI	-11.6742 (0.0000)	-2.82990 (0.0000)	27.0819 (0.0000)
Trade to GDP	-5.82358 (0.0000)	-1.97038 (0.0244)	5.21919 (0.0000)
Government spending	-13.0319 (0.0000)	-1.04581 (0.1478)	6.41756 (0.0000)
Time to start business	-5.26345 (0.0000)	-3.26023 (0.0006)	5.06266 (0.0000)
Labour Cost	-10.5928 (0.0000)	1.07164 (0.8581)	8.11828 (0.0000)
Regulatory quality Estimate	-5.57267 (0.0000)	0.64297 (0.7399)	7.03682 (0.0000)
Internet connection	-14.6052 (0.0000)	0.14776 (0.5587)	6.25035 (0.0000)
Cost of business start-up procedures	-15.8158 (0.0000)	1.81292 (0.9651)	4.69300 (0.0000)

Note: The null hypothesis is that the series is a unit-root process; p-values are reported in parentheses.

TABLE 5: Estimates of OLS for Consumer Finance Foreign Investment Flows.

Variables (expected sign)	Fixed effects panel least squares with FDI as dependent variable
Constant	-376.391** (0.0000)
Trade to GDP (+)	0.733090** (0.0022)
Government spending (+)	5.608671** (0.0009)
Time to start business (-)	-1.544024** (0.0009)
Labour Cost (-)	1.040418** (0.0059)
Regulatory quality estimate (+)	45.97245** (0.0000)
Internet connection (+)	0.653029** (0.0155)
Cost of business start-up procedures (-)	3.715228** (0.0002)
Adjusted R^2	0.566029
Akaike info criterion	6.682732
Log likelihood	-191.8474
S.E. of regression	5.985166

Note: *, ** and *** show statistical significance at 1%, 5% and 10% level, respectively. Adjusted R^2 is the R^2 penalized for the number of regressors, the Akaike info criterion value is calculated as 2(l/T) 2 (k/T), where l is the log likelihood function value with the k parameters estimated using T observation. Output is provided from Eviews.

The relationship between FDI inflows and all the regressors is significant as shown by all p-values less than 5 percent in the panel specification. All signs of the coefficients are showing as expected previously: the more open a country is to international trade the more appealing it becomes to investors (trade to GDP having a positive sign); an increase in government spending in infrastructure, health and education means better working and functioning conditions and makes the country more attractive to foreign investors as well; the time it takes to start a business is inversely related to the flows of investment as the more time it takes to set up the company functioning legally and properly the less would an investor be interested in doing business in that

country; regulatory quality estimate implies that the higher the indicator the higher the government's ability to formulate sound policies that permit and promote private sector development which makes the environment safer to operate in; percentage of people having internet connection makes consumer finance companies (which already operate on digital platforms as it is cheaper and easier to maintain) more prone to open up affiliates in a specific country and leave the agent model aside -- agent being the sales person who has to visit the customer at home to sell the product and collect the money.

Unexpectedly, both labour cost and cost of business start-up procedures in the model seem to be positively influencing the flows of FDI which is contrary to the theoretical predictions, however, this might be due to the specificities of the period analyzed which comprises the global financial crisis and have eroded some already proven and documented positive negative relationships.It might also mean that investors would be willing to pay a higher price for setting-up a business in a particular country and also pay higher salaries if the country offers a good market where people are well trained and educated and where there is room for making good profits and having a growing customer base.

5. Conclusions

Even though significant growth and complexity of non-bank financial institutions started happening in the past 10 years and their role in financing natural persons has increased substantially as an alternative way of financing to traditional bank loans, there is still room for empirical studies to be performed as the existing literature in the field is scarce. This is due to the fact that the consumer finance sector is still not regulated as much as a traditional lender and that there are gaps in financial data provided by them to the public. Thus, the aim of this paper has been to try to find the determinants that affects the decision of creating new foreign affiliates by consumer finance entities in Europe over the period 2006-2013. Apart from that, the model could help authorities regulate and supervise better the activity of consumer finance companies as it sheds some light on what drives their expansion.

The model built combined variables from different theories - OLI model, new trade theory combined with macroeconomic indicators and country specificities as a way to highlight the relationship between foreign direct investment and these variables in eight countries from the EU using the panel fixed effects methodology.

My results show that the foreign direct investment flows are positively associated with trade openness, government spending on health, education and infrastructure, the

soundness of the regulatory system, the amount of people having internet connection and unexpectedly labour cost and cost of business start-up procedures. Furthermore, an increased time to start a business decreases the likelihood of consumer finance FDI in the specification. These results suggest that all variables are statistically significant and determine the FDI inflows.

Last but not least, according to Orbis database which classifies consumer finance entities under NACE Rev. 2 649, all consumer finance companies created in the period 2000-2018 and which reported to Orbis were taken, having at least a foreign investor holding at least 10 percent of the stock in order to see which are the top 10 investors in EU-28, where do they come from but also where they prefer to invest. Findings show that the top five investors come from US, UK, Germany, France, Netherlands and their favourite destinations are UK, Ireland, Cyprus, Luxembourg and Spain.

There is, without debt, more need to investigate the determinants of FDI, in this still not that much explored field of consumer finance, for instance combining macroeconomic variables with company data as a way to understand the rationale of choosing a particular country to invest in. Also, I believe taking into account the potential non-linearity of this relationship could be a good investigation subject in the near future.

References

[1] González A., Terasvirta T., Van Dick D., et al. (2017). Panel Smooth Transition Regression Models. *Working Paper Series of Economics and Finance,* no. 604.

[2] Demirhan E. and Masca M. (2008). Determinants of foreign direct investment flows to developing countries: a cross-sectional analysis. *Prague Economic Papers*, Vol. 4*,* pp 356-369

[3] Poelhekke S. (2016). Financial globalization and foreign direct investment. *De Nederlandsche Bank.* Working Paper No. 527, 33 pages

[4] Moshirian F. (2001). International investment in financial services. *Journal of Banking and Finance*, Vol. 25, No. 2, 21 pages

[5] Davies R. and N. Killeen. (2015). Location decisions of non-bank financial foreign direct investment: firm-level evidence from Europe. *Review of International Economics,* Vol. 26, No. 2, pp. 378-403

[6] Faeth I. (2009). Determinants of foreign direct investment -- a tale of nine theoretical models. *Journal of Economic Surveys,* Vol. 23, No. 1, pp. 165-196

[7] Bevan A. and Estrin S. (2002). The determinants of foreign direct investment into European transition economies. *Journal of Comparative Economics,* Vol. 32, No. 4,

pp. 775-787

[8] Wheeler D. and Mody A. (1992). International investment location decisions: the case of US firms. *Journal of International Economics*, Vol. 33, No. 1-2, pp. 57-76

[9] Aghion P., Bacchetta P., Ranciere R. et al. (2006). Exchange Rate Volatility and Productivity Growth: The Role of Financial Development. *Journal of Monetary Economics,* Elsevier, Vol. 56, No. 4, pp. 494-513

[10] Hall S., Hondroyiannis G., Swamy P.A.V.B. et al. (2010). Exchange-rate volatility and export performance: Do emerging market economies resemble industrial countries or other developing countries. *Economic Modelling,* Vol. 27, No. 6, pp. 1514-1521

[11] Asteriou D., Masatchi K., Pilbeam K. (2016). Exchange rate volatility and international trade: International evidence from the MINT countries. *Economic Modelling,* Vol. 58, pp. 133-140

[12] Dunning J. (1979). Explaining changing pattern of international production: in defence of eclectic theory. *Oxford Bulletin of Economics and Statistics,* Vol. 41, No. 4, pp. 269-295

[13] Belascu L., Horobet A., Popovici O. (2018). Foreign Direct Investments and Economic Growth in Central and Eastern Europe: A Panel-Based Analysis. *Journal of Comparative Economics*, pp. 35-46

[14] European Central Bank. (2016). The role of euro area non-monetary financial institutions in financial intermediation. *ECB Economic Bulletin*, Issue 4, Article 1

[15] Dellis K., Sondermann D. and Vansteenkiste I. (2017). Determinants of FDI inflows in advanced economies: Does the quality of economic structures matter?. *ECB Working Paper 2066*

[16] Bakk-Simon K., Borgioli S., Giron C. et al. (2012). Shadow banking in the euro area: an overview. *Occasional paper series*, European Central Bank, No. 133

[17] Basile R., Castellani D., Zanfei A. (2008). Location choices of multinational firms in Europe: The role of EU cohesion policy. *Journal of International Economics*, Vol. 74, No. 2, pp. 328-340

[18] Blonigen B. and Piger J. (2014). Determinants of Foreign Direct Investment. *Canadian Journal of Economics*, Vol. 47, No. 3, pp. 775-812

[19] Claessens S. and Latnovski L. (2014). What is shadow banking?. *IMF Working Paper,* No. 14/25, International Monetary Fund

[20] Devereux M., Griffith R. (1998). Taxes and the location of production: evidence from a panel of US multinationals. *Journal of Public Economics*, Vol. 68, No. 3, pp. 335-367

[21] Claessens S., Van Horen N. (2014). Location decisions of foreign banks and competitor remoteness, *Journal of Money, Credit and Banking*, Vol. 46, No. 1, pp. 145-170

[22] Goldberg L. (2007). Financial sector FDI and Host Countries: new and old lessons. *Economic Policy Review*, Vol. 13, No. 1, pp. 1-17

[23] Greene W. (2012). *Econometric analysis*. New York, USA: Pearson, seventh edition

[24] Golub S. (2009). Openness to Foreign Direct Investment in Services: an international comparative analysis. *The World Economy*, Vol. 32, No.8, pp. 1245-1268

[25] International Monetary Fund. (2014). Shadow banking around the globe: how large and how risky?. *Global Financial Stability Report*, World Economic and Financial Surveys

[26] Siedschlag I., Zhang X., Smith D. (2013). What determines the location choice of multinational firms in the information and communication technologies sector. *Economics of Innovation and New Technology*, Vol. 22, No. 6, pp. 581-600

[27] Yamori N. (1998). A note on the location choice of multinational banks: the case of Japanese financial institutions. *Journal of Banking and Finance*, Vol. 22, No. 1, pp. 109-120

[28] Makiela K. and Ouattara B. (2018). Foreign direct investment and economic growth: Exploring the transmission channels. *Economic Modelling*, Vol. 72, pp. 296-305

[29] Alvarado R., Iniguez M., Ponce P. (2017). Foreign direct investment and economic growth in Latin America. *Economic Analysis and Policy,* Vol. 56, pp. 176-187

[30] Agiomirgianakis G., Asteriou D., Papathoma, K. (2003). The determinants of foreign direct investment: a panel data study for the OECD countries (03/06). *Department of Economics, City University London.*

[31] Markusen J. R. and Venables A. J. (1998). Multinational firms and the new trade theory. *Journal of International Economics, Elsevier,* vol. 46(2), pp. 183-203