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Economic growth and foreign direct investment in Balkans

Abstract. Foreign direct investment (FDI) has become a key source of economic growth for the Balkan countries, offering vital funding for development initiatives. Therefore, the purpose of this study was to examine the dynamics of FDI in Serbia, North Macedonia and Montenegro from 2000 to 2023. An econometric model was used to conduct the research, namely, the relationship between FDI and economic growth in the region was analysed. A multiple regression model was developed that includes gross domestic product growth as the dependent variable. It was established that significant fluctuations in the rates of economic growth are characteristic of all three countries during this period. Serbia has shown particular resilience, with positive growth rates prevailing in most years. Key sectors attracting FDI were also identified, including services, manufacturing, automotive, IT, agriculture, energy and tourism. The obtained results emphasised the importance of reforms aimed at business development, infrastructure development and regional integration, especially with the EU, as critical factors in attracting FDI. In addition, diversification of FDI sources was emphasised with increased investments from China, Turkey and the United Arab Emirates, which complement traditional investors from the EU. More than 60% of foreign investment in Serbia has been found to be concentrated in the services sector, while North Macedonia has successfully attracted investment in high value-added industries such as information technology and engineering. These findings are consistent with established economic theories about the impact of FDI on growth, while providing specific insights into the Balkan context. It found that a 1% increase in FDI was associated with a 0.3-0.5% increase in gross domestic product in the Balkan countries studied. The obtained results can become the basis for future political decisions and investment strategies in the region

Keywords: investment sectors; regional integration; investment incentives; infrastructure development; energy projects

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INTRODUCTION

In the conditions of a changing global economic environment, the study of the relationship between foreign direct investment (FDI) and economic growth in the Balkans has become particularly relevant. The Balkan region, historically characterised by political instability and economic challenges, has undergone significant transformations aimed at integration into the European and world economy. After the 2000s, the countries of the Balkans began to implement large-scale economic reforms aimed at creating a favourable investment climate and stimulating economic growth. Before the global financial crisis of 2008, the region demonstrated impressive rates of economic development. However, the crisis revealed the structural weaknesses of the economies of the Balkan countries, emphasising the need for further reforms and diversification of sources of economic growth.

The issue of sectoral distribution of FDI and its impact on various sectors of the economy of the Balkan countries remains insufficiently studied. M. Radulović & M. Kostić (2024) focused on the paradox of the relatively low level of FDI in the region, despite significant efforts to improve the investment climate. Their research highlighted the need for a deeper analysis of the factors influencing investment decisions in the context of the Balkan economies. F. Chen & G. Jiang (2023) examined the impact of institutional quality on FDI inflows, highlighting the critical importance of the rule of law and anti-corruption in attracting foreign investment. Their findings emphasise the need for further improvement of the institutional environment in the Balkan countries as a key factor in stimulating FDI. G. Lubeniqi (2023) considered the role of European integration in stimulating economic development and attracting investments to the region. This study indicated the positive impact of the prospect of EU membership on the investment attractiveness of the Balkan countries, but also emphasises the need for further structural reforms to maximise this effect. Special attention was paid to the impact of global economic crises on FDI dynamics in the region. A. Maksić *et al*. (2023) analysed in detail the consequences of the 2008 financial crisis for the economies of the Balkans, identifying significant structural problems that became evident during the crisis. This study emphasised the need to study the resilience of the Balkan economies to external shocks and the role of FDI in ensuring economic stability.

L. Benfratello *et al*. (2023) indicated an uneven distribution of investments between sectors, which may have long-term consequences for the economic development of the region. However, detailed analysis of this aspect in the context of current economic trends remains limited, creating an important research gap. A. Steinbach (2024) emphasised the importance of regional cooperation for increasing the investment attractiveness of the Balkans. However, the specific mechanisms and results of such cooperation, especially in the context of attracting FDI and stimulating economic growth, remain insufficiently researched. This opens up a promising direction, especially given the growing trend toward regional integration in the global economy. D. Derado & D. Horvatin (2023) investigated the impact of FDI on the productivity of local firms in Central and Eastern European countries, including some Balkan states. This study found the positive effects of technological and knowledge spillovers from foreign investors to local firms, but also highlighted the importance of the absorptive capacity of local economies to maximise these benefits. This raises the question of the readiness of the Balkan economies to effectively use the potential of FDI for technological development and increasing competitiveness.

During the literature analysis, several key areas of research in the field of FDI and economic growth in the Balkans were identified. Taking into account the identified gaps in existing research and modern economic challenges, the purpose of the article was to carry out a comprehensive analysis of the relationship between direct foreign investment and economic growth in the countries of the Balkan region in modern conditions. The study was aimed at identifying key factors influencing the effectiveness of FDI in stimulating economic development, and developing recommendations for optimising investment policy in the region.

LITERATURE REVIEW

In the modern economic literature, the study of the relationship between FDI and economic growth in the Balkans attracts considerable attention of scholars. This region, with its unique history and economic challenges, is of particular interest for studying the impact of FDI on the development of transition economies. A. Lazaj (2023) has made a significant contribution to the study of FDI in developing countries, particularly in the Western Balkans. This work focuses on the role of institutions, characteristics of host countries, and market entry strategies to attract FDI. E. Istrefi & J. Imeraj (2022) emphasised the importance of the institutional environment for the effectiveness of FDI, which is particularly relevant for the Balkan countries with their complex history of transformations. E. Zaimaj (2023) specialises in the study of FDI flows in the Western Balkans region. This work analysed the causes and consequences of FDI, as well as the challenges and potential for investment in the region. M. Hasani & B. Hasani (2023) found that the quality of institutions and macroeconomic stability are key factors influencing the attractiveness of Balkan countries for foreign investors.

Research by S. Mucha & B. Fetai (2023) covers a wide range of issues related to FDI in the Western Balkans, including an analysis of FDI patterns, their impact on economic development and their role in the transition of countries in the region to a market economy. A.M. Fazaalloh (2024) emphasised the importance of the sectoral structure of FDI for long-term economic growth. B. Mustafa & S. Abdullahu (2024) focus on the relationship between FDI and economic growth, the role of FDI in job creation and its impact on productivity. Researchers have focused on the relationship between FDI and economic growth, the role of FDI in job creation, and its impact on productivity. A study by A. Toska & B. Fetai (2023) demonstrates the positive impact of FDI on economic growth in the Balkan countries, but also points to the need for complementary policies to maximise this effect.

A. Hajdini *et al*. (2023) conducted an analysis of factors influencing FDI in the Western Balkans, focusing on market size, labour costs and institutional quality. Their research found that institutional quality is a particularly important factor in attracting FDI to the region. S. Klaiqi *et al*. (2023) investigated the relationship between FDI and economic growth in the Western Balkans, analysing the impact of FDI on regional gross domestic product (GDP), employment and productivity. Their findings confirm the positive impact of FDI on economic growth, but also indicate the heterogeneity of this impact in different sectors of the economy. L. Hoxhaj & D. Qehaja (2024) conducted a comprehensive study of the determinants of FDI in the Western Balkans, finding that despite the improvement in the investment climate, the level of FDI in the region remains lower than expected. A study by V. Disha & B. Fetai (2024) emphasised the need for further institutional reforms to increase the attractiveness of the region for foreign investors. A. Branković & S. Sarajčić (2024) focused on the influence of the quality of institutions on the inflow of FDI in the Balkan countries. Their study found a strong correlation between indicators of the rule of law, control of corruption, and the amount of FDI flowing into the region.

S. Kurtović *et al*. (2023) investigated the impact of FDI on the productivity of local firms in Central and Eastern European countries, including the Balkan states. They found positive effects of technology spillovers from foreign investors, but also emphasised the importance of absorptive capacity of local economies. Y. Wu *et al*. (2023) analysed the impact of FDI on environmental efficiency in the countries of the region. Their research revealed a complex relationship between FDI and environmental performance, emphasising the need to develop policies to attract "green" investment. S. Berisha & X. Sopi (2023) studied the impact of European integration on FDI flows to the Balkan countries. It was found that the prospect of membership in the EU significantly increases the attractiveness of the countries of the region for foreign investors. V. Bucevska & A. Naumoski (2023) conducted an analysis of the impact of FDI on economic growth in Serbia, revealing a positive but heterogeneous impact of different types of FDI on the country's economic development.

I. Nikolić & M. Maksimović (2024) analysed the impact of FDI on the labour market in the Balkan countries, focusing on job creation and skills transfer. S. Zeković & A. Perić (2024) investigated geographical patterns of FDI distribution in the Balkans, revealing significant regional disparities in investment attraction. M. Cingolani (2023) conducted an analysis of the sectoral distribution of FDI in the Balkan countries, revealing the growing role of investments in the service sector and high-tech industries. These studies form a comprehensive picture of the impact of FDI on the economic growth of the Balkan countries, highlighting both the positive effects and the challenges associated with the attraction and effective use of foreign investments in the region. They also highlight the need for further research to understand the long-term effects of FDI and develop effective policies to maximise its positive impact on the economic development of the Balkans.

MATERIALS AND METHODS

The study covered the period from 2000 to 2023, focusing on three Balkan countries: Serbia, Montenegro and North Macedonia. An econometric model was developed and applied to analyse the relationship between FDI and economic growth. The basis for developing the model was the gravity model of J.A. Frankel (1997), which was modified to include dynamic aspects of FDI flows. The model specification took into account key economic indicators and factors affecting FDI and economic growth. The econometric model had the following form:

$$ln(FDIflowij) = \propto_0 + \propto_1 ln(Y) + \propto_2 ln(Y_{jt}) + \propto_3 ln(Di) + u, \quad (1)$$

where *i*, *j*, *t* – respectively: host economy, home economy and year *t*; *FDIflow* – FDI inflow into host economy coming from home economy in year *t*; *Yi(j)t* – GDP of host economy – home economy, in year *t*; *Dij* – distance between economic centers of host and home economies (constant for EU Member States during 1990-2009). The inclusion of random error *εijt* made it possible to take into account in the study the impact on GDP of all factors, except for capital, human capital and direct foreign investment, which ensured a more adequate reflection of reality in the model. The log-log model was used to estimate the elasticity coefficients. However, during its use, two key problems were discovered. First, variables with zero values could not be directly transformed into logarithms, which limited the applicability of the model. Second, the use of the least squares method to estimate the log-log equation led to significant biases in the results. To solve these problems, it was decided to replace the zero values with the value $1, which allowed to avoid zero values in the collected data and to apply a logarithmic transformation.

For the analysis of panel data, the method of fixed effects was applied, which made it possible to take into account the individual characteristics of countries that do not change over time. This helped the study control for unobserved country-specific factors that might have influenced the relationship between FDI and economic growth. To solve potential endogeneity problems, the method of instrumental variables was applied. As tools, the lag values of independent variables were used, which made it possible to obtain more reliable estimates of the coefficients of the model. Data for the study were collected from reliable international sources, including the databases of the World Bank ("Middle-income trap"..., 2024) and Eurostat (2024). The use of these sources ensured the reliability and comparability of data between countries and years. To visualise the results, graphs and charts were created illustrating the dynamics of FDI and economic growth in the studied countries during the analysed period. The applied methodology made it possible to carry out a comprehensive analysis of the relationship between FDI and economic growth in the Balkan countries, taking into account the specifics of the region and modern econometric approaches.

RESULTS

FDI has played an important role on the economic growth of Serbia, The Serbian government's efforts to draw FDI and the results obtained in this area have made the topic of FDI an almost constant topic in Serbian politics and the media. Authors can better grasp the relationship between FDIs and GDP growth with the aid of numerical statistics. Serbia experienced fluctuating economic growth rates between 2000 and 2023. The country witnessed periods of substantial expansion, with annual growth rates exceeding

6% in several years. However, economic contractions occurred in 2006, 2009, 2012, 2014, and 2020. Overall, Serbia's economy demonstrated resilience, with positive growth rates prevailing in most years (Fig. 1).

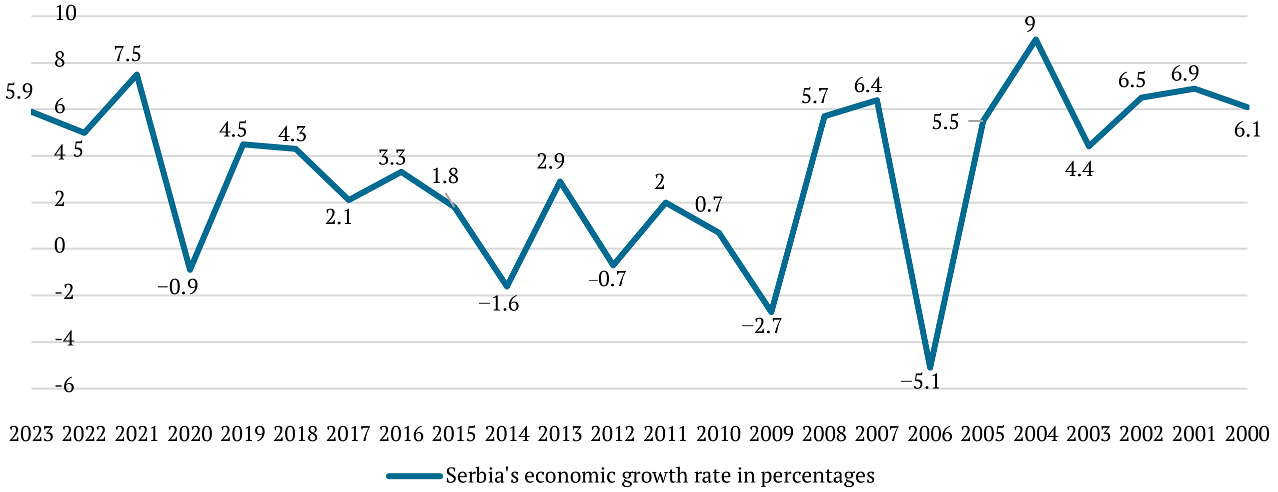

Figure 1. GDP growth of Serbia
Source: compiled by the authors based on "Middle-income trap" hinders progress in 108 developing countries (2024), Eurostat (2024)

Investment in Serbia's real economy, which creates goods and services, is essential to the country's economy since growth in these areas might help the nation's consistently negative trade balances. A recurrent issue with investment policy is revealed by the sectoral organisation of investment in the Serbian economy. The sector of services, where it is most concentrated, receives more than 60% of all foreign investment. In order to encourage economic growth and development, Serbia has been attempting to entice FDI. The Serbian government has carried out a number of measures in recent years to enhance the business environment and increase the country's appeal to foreign investors. Manufacturing, automotive, IT and software development, agriculture, energy, and real estate are a few important industries that have drawn FDI to Serbia. The nation's strategic position, affordable labour prices, and skilled labour force have all helped to make it appealing to foreign investors. Serbia has also ratified a large number of free trade agreements and bilateral investment treaties, giving investors preferential terms and access to several markets. Authors can identify a few key FDI trends in Serbia: In addition to various investments in the automobile industry (Fiat, wiring, tires), Chinese businesses have made three major investments (in mining and metallurgy), as well as Arab investments in agricultural (Fabregue, 2023; Lazaj & Duci, 2024).

Recently, Turkish businesses have made investments in Serbia's once-prolific textile and footwear industry. Major investments were made by the United Arab Emirates in P&O Port and Air Serbia. The Novi Sad port came under the administration of Dubai from the United Arab Emirates. On the production side, Siemens took over Milanovi Engineering from Kragujevac. Iemens has constructed a new facility for the manufacture of aluminium passenger coach bodies and will soon begin manufacturing trams. While most FDI manufacturing is geared toward export, some of it is for the home market. Serbia has made infrastructure investments in transportation, electricity, and telecommunications. These developments are intended to improve connectivity, logistics, and the general business environment in order to attract FDI. Serbia has negotiated and completed a number of free trade agreements, giving it access to a huge market and favourable trading terms. These agreements, which include those with the EU and the Central European Free Trading Agreement countries, help to attract foreign businesses looking to leverage Serbia as a regional trading hub. Serbia's relative regional stability has been a beneficial element in attracting FDI. The country's geopolitical location at the crossroads of Europe adds to its attractiveness as a regional investment destination.

FDI has played an important role on economic growth of North Macedonia. Here are some key points regarding FDI in North Macedonia. Sectors: FDI in North Macedonia has been attracted to various sectors, including manufacturing, services, energy, automotive, information technology, and textiles. The country has sought to diversify its economy and attract investments in high-value-added industries. Countries of origin: FDI in North Macedonia comes from a range of countries. Historically, investments from EU member states, such as Germany, the Netherlands, Austria, and Italy, have been prominent. Additionally, investments from non-EU countries, including Turkey, the United States, Switzerland, and China, have increased in recent years. Economic reforms: North Macedonia has implemented economic reforms to enhance the investment climate. These reforms include improvements in the legal and regulatory framework, simplification of administrative procedures, and strengthening of investor protection. The government has also worked to combat corruption and improve governance which are crucial factors in attracting FDI. Investment incentives: Special economic zones have been established to provide additional incentives and attract investments in specific regions.

Skilled workforce: North Macedonia benefits from a relatively well-educated and skilled workforce, particularly in the fields of information technology, engineering, and languages. The availability of a skilled labour force is an attractive factor for foreign investors seeking to establish operations or outsource services. Regional integration: N. Macedonia's integration with regional and international organisations, such as the EU, has facilitated foreign investment. Access to regional markets, trade agreements, and harmonised business standards are advantages that can attract investors (Sokil *et al.*, 2020). Infrastructure development: North Macedonia has invested in infrastructure projects, including transportation, energy, and telecommunications. These developments enhance connectivity, reduce logistics costs, and provide a supportive environment for businesses. General trends and elements that were significant at the time include the following. Pro-business reforms: to enhance the economic climate and draw FDI, North Macedonia has implemented a number of measures. Manufacturing and export-oriented industries: in the past, North Macedonia has drawn FDIs in manufacturing goods, mainly textiles, electronics, and food processing. Renewable energy and infrastructure: North Macedonia has prioritised investments in renewable energy initiatives including wind farms and solar parks. North Macedonia's economic performance between 2000 and 2023 was characterised by fluctuations. The country experienced periods of growth interspersed with contractions. While there were years of robust expansion, with growth rates exceeding 5%, the economy also faced challenges, including negative growth rates in specific years. Overall, North Macedonia's economic trajectory exhibited a varied pattern during this period (Fig. 2).

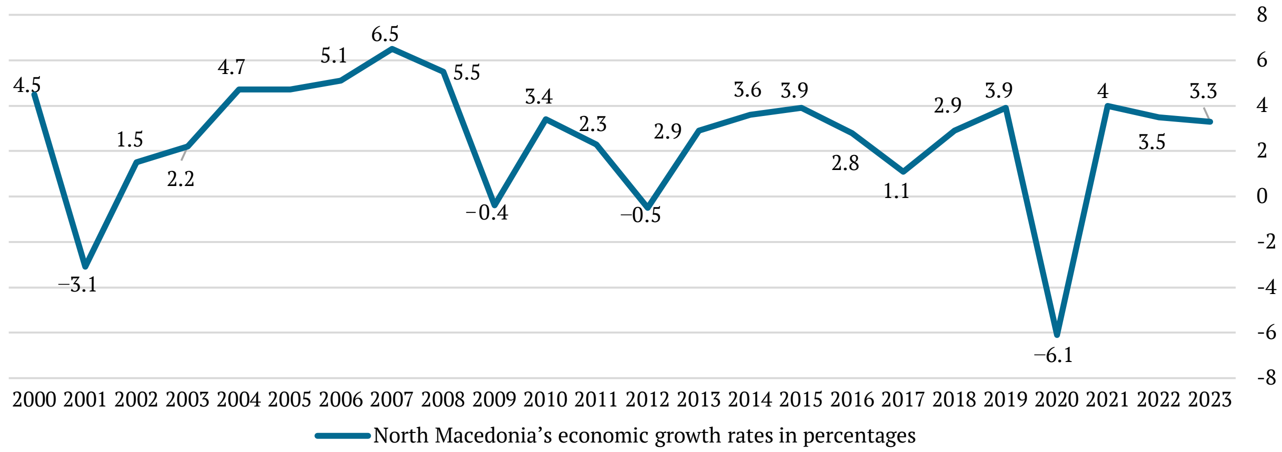

Figure 2. GDP growth of North Macedonia
Source: compiled by the authors based on "Middle-income trap" hinders progress in 108 developing countries (2024), Eurostat (2024)

Montenegro's economy has grown favourably. Its economy had been growing steadily before the COVID-19 epidemic, with an average yearly growth rate of roughly 3-4%. To entice investment and advance economic development, Montenegro has implemented market-oriented reforms and privatisation initiatives. These initiatives seek to boost competitiveness, enhance the business climate, and expedite administrative processes. Montenegro has made investments in the growth of its infrastructure, particularly in the areas of transportation and electricity. The economic growth of Montenegro has been significantly influenced by FDI. FDI inflows have mostly come from nations like Russia, Serbia, and EU member states. High unemployment rates, an aging population, corruption, and the need for more reforms in the economic environment are just a few of the difficulties Montenegro is facing. The emphasis on green initiatives and sustainable development in Montenegro is rising. The country has implemented reforms and initiatives to attract foreign investors and create a favourable investment climate. Here are some key points regarding FDI in the government of Montenegro offers investment incentives for foreign investors: the incentives may include subsidies, grants, and streamlined administrative procedures and tax breaks, special economic zones and free trade zones have been established to provide additional incentives and foster investment in specific regions.

FDI in Montenegro has been attracted to various sectors, including tourism, energy, real estate, manufacturing, services, and infrastructure development. The tourism sector has been a significant recipient of foreign investment, driven by Montenegro's natural beauty and coastal attractions. The EU accession process has encouraged reforms, provided access to EU funding and support, and natural resources and energy: Montenegro has potential natural resources, including minerals, water resources, and renewable energy sources. FDI has been attracted to energy projects, including hydropower, wind farms, and solar energy installations. Political stability and business environment: Montenegro has maintained political stability, which is an attractive factor for these investors. The Montenegro's government has made efforts enhance the legal, regulatory framework, and combat corruption. Montenegro's economy exhibited significant growth fluctuations between 2000 and 2023. The country experienced periods of rapid expansion, with annual growth rates surpassing 5% in several years. However, economic performance was uneven, marked by periods of slower growth and even contraction. Overall, Montenegro's economic trajectory during this period was characterised by volatility (Fig. 3). Montenegro has begun the privatisation of its state-owned businesses, providing opportunities for foreign investors to invest in a range of industries, infrastructure, energy tourism etc. FDIs have been drawn in large amounts to the Montenegrin tourist industry, with funds going toward the development of hotels, resorts, and other tourism-related infrastructure (Trusova *et al.*, 2020). FDIs have been utilised to build hydroelectric facilities, solar parks, and wind farms. Montenegro developed special economic zones to draw FDI and foster economic development in particular areas.

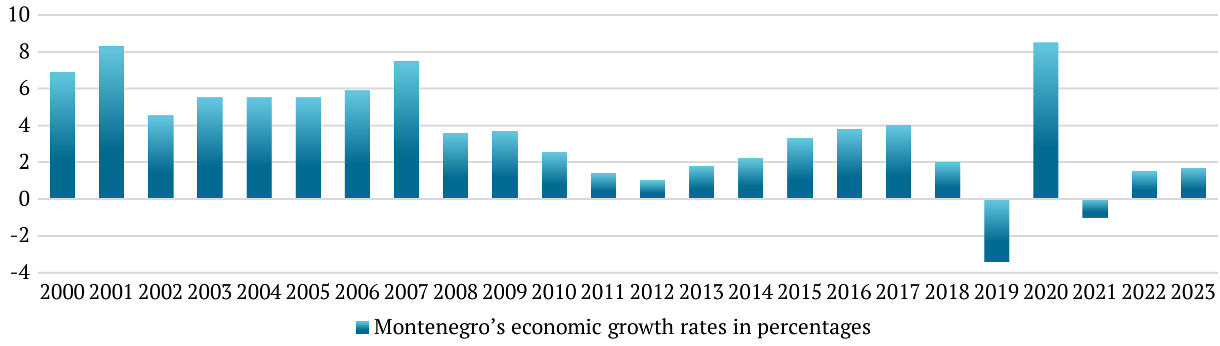

Figure 3. FDI in Montenegro
Source: compiled by the authors based on "Middle-income trap" hinders progress in 108 developing countries (2024), Eurostat (2024)

As a result of the research, a significant role of FDI in the economic development of Serbia, North Macedonia and Montenegro during 2000-2023 was revealed. All three countries were characterised by similar trends, in particular, periods of significant economic growth alternated with periods of slowdown and even recession, which indicates the vulnerability of the region's economies to external factors. Despite this, a high level of economic sustainability was found in the studied region. Serbia should be especially noted, where positive growth rates prevailed for most of the years. Reforms aimed at improving the business climate, infrastructure development and regional integration, especially with the EU, were key factors in attracting FDI for all three countries. The sectors that attracted the most FDI included services, manufacturing, energy and tourism, although the proportions varied between countries. It is important to note the diversification of FDI sources, with a noticeable increase in investments not only from the EU, but also from China, Turkey and the Persian Gulf countries. In general, the obtained results emphasise the critical importance of FDI for economic growth in the region and the need for further reforms to support stable investment inflows.

DISCUSSION

The results of the study demonstrate a complex and dynamic picture of the relationship between economic growth and FDI in the countries of the Balkan region, in particular in Serbia, North Macedonia and Montenegro. The obtained results are important for understanding the economic development of the region and developing potential strategies for further growth. In particular, during the analysis of the economic development of Serbia in the period from 2000 to 2023, an uneven growth dynamic alternating with periods of prosperity and decline was revealed. These results correlate with the conclusions of A. Pavlović *et al.* (2022) and B. Rexha *et al.* (2024), who also noted instability and structural imbalances in the Serbian economy after 2000. Despite such fluctuations, the conducted research confirms the general stability of the Serbian economy, since the vast majority of years were characterised by positive growth rates.

As a result of the discovery of a high concentration of FDI in the service sector of Serbia (over 60%), a challenge was formed regarding the long-term sustainability of the country's economic development. This approach is consistent with the conclusions of B. Marković *et al.* (2024), who noted the predominance of FDI in the service sector in most Balkan countries. However, contrary to these findings, this study found increasing diversification of FDI in Serbia, especially in the manufacturing, automotive and IT sectors. This shift suggests the potential for a more balanced distribution of investment, which could contribute to the country's long-term economic growth (Sejdiu *et al.*, 2024). Serbia's attractiveness for FDI is due to its good geographical location and active political measures to improve the business climate (Trusova *et al.*, 2022). These factors confirm the conclusions of studies, in particular I. Domazet *et al.* (2023), which emphasised the importance of institutional reforms and geographic location for attracting investment in the region. In addition, this study found that free trade agreements and bilateral investment treaties play a significant role in attracting foreign capital, which also correlates with the findings of I. Domazet *et al.* on the importance of international agreements for direct investment flows.

As for North Macedonia, it should be noted that a similar pattern of fluctuations in economic growth between 2000 and 2023 was established in the course of this study. S.I. Jelisavac Trošić & M.K. Arnaudov (2024) found limited diversification of FDI in the country. At the same time, this study emphasised the possible transition of this country to a more diverse economic structure, in the context of diversification of FDI sectors. North Macedonia's efforts to improve the business climate and fight corruption are consistent with the findings of F. Taskovski (2023), who emphasised the importance of institutional reforms to attract

FDI in the region. In the course of this study, the growing importance of regional integration, especially with the EU, as a factor of attracting FDI was also revealed, which also corresponds to the position of F. Taskovski (2023) about the positive impact of European integration on FDI flows in the Balkan countries.

In the case of Montenegro, significant fluctuations in economic growth were found between 2000 and 2023, with periods of rapid growth and deceleration. This volatility is consistent with the findings of S. Shahini & S. Kazazi (2023). The researchers noted the vulnerability of the Montenegrin economy to external factors. However, this study also highlighted the gradual improvement in the country's economic environment, particularly through efforts to attract FDI and develop key sectors. Special attention was paid to the concentration of FDI in the tourism sector of Montenegro, which accordingly reflects the country's natural advantages. At the same time, it raises questions about economic diversification, which is consistent with the conclusions of S. Shahini & S. Kazazi (2023), who emphasised the importance of tourism for the economy of Montenegro. Common between the studies is the expression of risks, which consist in excessive dependence of the country's economy on one sector. A growing interest in energy and infrastructure investments, which can contribute to more balanced economic development, has also been identified. Montenegro's efforts to privatise state-owned enterprises and create special economic zones in tourist regions correspond to the general trends in Montenegro identified by M. Benner (2020). This position correlates with the results of this study, as it highlights the potential of these initiatives to attract additional FDI and stimulate economic growth in this country.

Based on the above, it is possible to single out several key trends that exist in scientific doctrine and are consistent with the results of this study. First of all, the economic volatility of all three countries should be noted, as they show significant fluctuations in economic growth, which emphasises the need for strategies to increase economic stability. This position can be traced in all the scientific works analysed above and corresponds to the conclusions reached in this study. The importance of institutional reforms, the implementation of which is a necessary step for improving the business environment and fighting corruption in the context of attracting FDI, should be emphasised separately (Ketners, 2024). Also, all researchers describe the specifics of sectoral diversification, while there are differences between the countries under consideration. The general trend indicates a gradual diversification of FDI by sector. As for regional integration, the conclusions of this study fully coincide with the positions put forward in scientific doctrine. In particular, all three countries benefit from regional integration, especially with the EU, as a factor in attracting FDI. Infrastructure investment also plays a fundamental role in attracting FDI and stimulating economic growth among the countries studied. In conclusion, it can be noted that the results of this study and the analysed conclusions of other scholars provide an important contribution to the understanding of the dynamics of economic growth and FDI in the Balkan region, as they highlight both the achievements and challenges faced by these countries in their pursuit of sustainable economic development.

CONCLUSIONS

FDI in Balkans has been demonstrated in studies to produce beneficial spillover effects such as technology transfer, knowledge diffusion, job creation, and increased productivity. The Balkan countries have demonstrated investment potential, owing to their strategic position, natural resources, and comparatively low labour costs. FDI has been primarily concentrated in sectors such as telecommunications, tourism, banking and finance, manufacturing, energy projects, including hydropower and oil exploration, mining, construction, renewable energy projects, services, automotive, information technology, textiles, real estate, infrastructure development and agriculture have attracted significant foreign investment.

Changes in the distance between countries may have a big impact on FDI inflow, according to the analysis. A higher distance, results in a smaller FDI inflow. The reason is that investing in a foreign country that is geographically distant can be more costly, increase the perceived risks associated with FDI. A larger population can stimulate FDI by providing a broader consumer base, enabling economies of scale, and offering a larger labour pool. Additionally, it can serve as a gateway to regional markets. Higher real interest rates can attract foreign investment by offering higher returns. However, investors may also demand higher returns to compensate for increased capital costs, potentially influencing currency exchange rates. This can ultimately impact investor confidence and FDI flows. GDP has a positive impact on FDI because of market access and expansion, resource availability, cost efficiency and competitiveness, technological advantages and innovation, access to talent and expertise etc.

This state of affairs is caused by a number of factors, including: the size and potential of the market, competitive advantages, the level of technological development, the efficiency of supply chains and the development of infrastructure. The region governments have made efforts to improve the business environment and attract FDI. however, still need to be more. Reforms have been implemented to streamline administrative procedures, enhance legal and regulatory frameworks, and address issues related to corruption and bureaucracy. In the following scientific studies, it is advisable to consider the impact of macroeconomic indicators (inflation, budget deficit, exchange rate) on the attractiveness of the Balkan countries for investors.

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CONFLICT OF INTEREST

None.

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