

# Foreign Direct Investments in the Countries of the Balkan Peninsula - Status and Prospects

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## Abstract

The need to analyze the efforts made by the Balkan countries to attract foreign direct investment is dictated by the important role that the Balkan Peninsula plays as a crossroads of important economic and political interests. Knowing their experience in the field of attracting foreign capital is of great importance, since the geographical location and the peculiarities of the regional market are important factors that influence the entrepreneurial choice. The socio-political situation in the Balkans in the 1950s was very different for individual countries, due to the established different political, economic and social systems. This predetermines the corresponding attitude towards the place and role of foreign capital in their economic development. Here, the political palette is very diverse as there are countries from different economic blocs and also non-aligned countries. At the beginning of the 21st century, the countries found themselves in a radically different situation after the political and social changes in the 1990s. A group of countries such as Greece, Turkey, and Romania occupy unique leadership positions, regardless of economic crises and economic shocks. Other countries such as Bulgaria and the countries of the former Yugoslavia are making complex efforts to attract foreign direct investment with variable success. The authors, using various research methods, will attempt to analyze the future trends in this prospective area of Balkan economic relations.

**Keywords:** Transformation, Crisis, Foreign Investment, Capital Flows.

**JEL Classification Codes:** F230, O190

## Introduction

The paper views an analysis of the efforts made by the Balkan countries to attract foreign direct investment because of the strategic role played by the Balkan Peninsula as a crossroads of important economic and political interests. The knowledge of the experience of the Balkan countries in the field of attracting foreign capital is of great significance since the geographical location and the characteristics of the regional market are important factors that influence the entrepreneurial choices. In the course of developing the article different methods were used - induction, deduction, analysis, surveys, etc.

Investment is a key factor for economic development. Almost all

research papers highlight the link between economic growth and the level of investment. Recent endogenous growth theories extend the relationship between investment and economic growth. They have an expanded view of investment - i.e. investment is not only spending on capital goods or spending on improving technology, but also on creating and improving human capital. For this reason, countries that commit more resources to investment, foreign and domestic, can expect faster growth.

Foreign direct investment and portfolio investment play a crucial role in accelerating economic growth of both individual countries and regions worldwide. Undeniably, highly industrialized countries are both donors and recipients of capital flows. In this way, they secure control not only over capital resources, but also over technological transfers, technical inventions and manufac-

turing know-how. Economic crises such as that of 2008, as well as major events such as the war in Ukraine in February 2022 and local conflicts in various parts of the world, have an indelible impact on the dynamics of international investment flows. This makes entrepreneurs extremely cautious and uncertain, which confirms the rule of capital migration to relatively safer places. Portfolio investors are the most sensitive and the quickest to withdraw their funds when economic threats arise, but foreign direct investment is the most stable and long-lasting.

The fact that there is an uneven distribution of foreign investment flows on a regional scale should also be taken into account. There is a growing trend of inequality between regions, between the 'rich North' and the 'poor South'. In the future, there will be increasing competition between the three centers of the so-called 'Triad' - Europe, America and Japan - to attract foreign direct investment. The big loser seems to be the European continent. The competition to attract investment will be in high-tech areas to create a knowledge-based economy.

The need for an analysis of the efforts made by the Balkan countries to attract foreign direct investment is dictated by the important role played by the Balkan Peninsula as a crossroads of important economic and political interests. In this respect, it would be useful to compare the situation in the individual Balkan countries with regard to foreign investment. Knowledge of their experience in attracting foreign capital is of great importance for our country, as its geographical location and the characteristics of the regional market are important factors influencing entrepreneurial choices.

The socio-political situation on the Balkans in 1950s varied greatly from country to country, due to the different political, economic and social systems that were established. This determined the respective attitude towards the place and role of foreign capital in their economic development. The political palette is very diverse as there are countries from different economic blocs as well as non-aligned countries. The governing circles in Greece and Turkey remained committed to the market economy. Turkey was the first Balkan country to liberalize its state policy on attracting foreign investment by adopting a law to that effect. It removed restrictions on the export of profits generated, allowed the repatriation of capital and shareholdings of both foreign and joint ventures. The law emphasized the regional orientation of foreign capital by providing customs, tax and credit exemptions and export incentives.

Former Yugoslavia, which was one of the leaders of the non-aligned movement, was the first of the Eastern European countries to adopt a law on foreign investment in 1967. It was part of the toolkit to introduce market economy principles and gradually withdraw the state from the economy. The Yugoslav system of "self-governing economic units" was also designed in a specific way in the field of foreign capital investment. The management of joint ventures was entrusted to representatives of the Yugoslav side. Foreign observers and experts are not unanimous in their assessments of the applied model and assess it as insufficiently liberal. A legal possibility for foreign commercial banks to grant loans for joint projects was created. With its reform policy, our western neighbor attempted to join the world economy and accelerate its development. Subsequent events showed that

some of these tasks set at the time were completed at a sufficiently good level. A typical example in this respect is the Republic of Slovenia, which, because of its good economic performance, has received an invitation to full membership of the European Union.

In 1970s, Romania moved towards expanding economic ties with the developed industrial countries. It was the second Eastern European country to allow foreign investment in its national economy. It was seen as a way of technological renewal and modernization of manufacturing in certain industrial sectors such as oil production and refining, automobile and heavy engineering. Like Yugoslavia, Romania, through the Foreign Investment Law, attempted to bring together two large sets of opposing interests: on the one hand, to open its own market to the creation of joint ventures and, on the other, to maintain total state control over business entities. The "law" allowed foreign entrepreneurs to own up to 49% of the charter capital of the joint ventures created. Their fixed and working capital were exempted from customs duties. The law was highly restrictive in terms of the foreign partner's ability to act independently.

It should be taken into account that the Balkan region is a less preferred location for investment. In this respect, only Greece occupies a better position, where foreign direct investment per capita represents 62% of the level reached by the countries of the European Union [1]. Romania has introduced a number of incentives for foreign entrepreneurs since 1998, concerning both the residence regulations for foreign nationals, sectors and regions for investment, tax incentives, etc. Turkey maintained its liberal policy from the middle of the last century and continued this trend at the beginning of the third millennium. The industrial sector took the lead in terms of the size of investments attracted, which in the period 1995 -2000 accounted for 6.765 billion dollars or over 50% of all investments attracted. Greece offers the most diverse opportunities for attracting foreign capital. Tourism has the fastest development, followed by agriculture, finance and some of the sub-sectors of industry - food, textiles.

The idea of dynamizing economic cooperation between the Balkan countries finds support among foreign investors, transnational companies and investment banks interested in implementing investment projects in the region.

Our country is at a very low level in the process of attracting foreign direct investment in leading sectors, including industry. There is a pressing need for fresh capital resources for the industrial sector due to the fact that a large number of enterprises were and are operating with obsolete technology and depreciated equipment of 1960s and 1970s. Their products were sold on markets that were unpretentious in terms of quality indicators. However, with the collapse of the former economic relations between Eastern European countries, they could not accept Bulgarian goods due to their uncompetitiveness. Another part of the enterprises, still having relatively good facilities and equipment feel a dire need to get better management, know-how and attractive and reputable brand [2].

The implementation of a comprehensive strategy for the long-term development of the region is entirely in the economic interest not only of our country, but also of the other Balkan countries.

## Description and Analysis of FDI in Turkey

Undoubtedly, the Republic of Turkey holds a specific place on the economic scene of the Balkans. Since the beginning of the 21st century, the FDI attraction policy has been governed by a completely new Foreign Investment Law and relevant regulations. The Turkish Investment Law ensures equal treatment of both domestic and foreign investors. The Turkish government implements investment promotion programmes to improve and consolidate the country's investment image.

The Turkish FDI policy is based on the concept of freedom of investment. Article 3 of the FDI Law provides that foreign investors may invest directly in Turkey and must be treated equally with domestic investors. Certain sectors have specific regulations due to additional public security and public interest concerns [3].

We should also mention the Investment Development Strategy

developed by the Investment Department of the President of the Republic of Turkey in cooperation with public and private organizations in 2022. The investment climate in Turkey is positively influenced by its favourable demographics and strategic geographic location, providing access to multiple regional markets, and has one of the most liberal FDI legislation among OECD members. The factors hindering the development of FDI include the volatility of the Turkish lira, as seen in the currency crises that regularly erupt and drive its value to record lows, excessive bureaucracy, a slow judicial system, macroeconomic instability, frequent changes in the legal and regulatory environment, and the proximity of conflicts in the Middle East.

Total foreign direct investment in the Republic of Turkey from 1961 to 2022 amounts to \$266.99 billion, thereby making the country the undisputed leader in the region. For the period 2003-2022, the accumulated FDI flow amounts to \$251.53 billion or 94.21% (see Table 1).

**Table 1:** Foreign Direct Investment in Turkey 2003- 2022 Bln \$.

Year	2003	2004	2005	2006	2007	2008	2009
FDI	1.70	2.79	10.03	20.19	22.05	19.85	8.59
Year	2010	2011	2012	2013	2014	2015	2016
FDI	9.10	16.18	13.74	13.56	13.34	19.26	13.84
Year	2017	2018	2019	2020	2021	2022	
FDI	11.19	12.45	9.55	7.70	13.33	13.09	

Data from the Turkish Investment Authority show that most of the foreign investment is directed to the finance (31.6%), manufacturing (24.2%) and energy (10.6%) sectors, followed by ICT services (8.8%), wholesale and retail trade (8.4%) and transport and warehousing (4.7%). In terms of securities, the Netherlands leads the way, accounting for 15.7% of total foreign investment, ahead of the United States (8.1%), the United Kingdom (7.5%) and the Gulf countries (7.1%, mostly from Qatar). According to the EU, 321 FDI projects were registered in Turkey in 2022 (an increase of 22% year-on-year), creating nearly 14,000 jobs; while the latest OECD figures show that in the first half of 2023, FDI inflows into the country amounted to \$4.8 billion, marking a 30% decline compared to the same period one year earlier [3].

## Description and Analysis of FDI in Greece

In the last years of the 21st century, the Greek economy has undergone serious transformations imposed by objective circumstances. It should be noted that, of all the Balkan countries, the Hellenic Republic was in the most favourable economic and political position - it had been a member of the European Union since 1986, a member of the euro area and a member of a number of prestigious international organisations. In addition, it occupies an important geostrategic position in the international arena. It should also be taken into account that the country has a well-established political system and is also the oldest democracy in the world from antiquity to present day.

Greece experienced a severe financial and economic crisis in the

period 2009-2018, which led to a 25 percent decline in real GDP. Due to the huge external indebtedness and the looming threat of an exit from the euro area, the country was subject to a package of special measures designed and implemented by the euro area, the European Central Bank and international financial institutions. As noted by analysts, economic growth began to recover in 2019 and unemployment fell from its crisis peak of 35 percent in 2013 to 12 percent in 2022.

The Greek government maintains a liquidity buffer of about \$38 billion as of June 2022. Capital controls were fully lifted in September 2019 and Greece successfully exited the European Commission's enhanced economic surveillance framework in August 2022. Greece will remain subject to post-program monitoring by euro area creditors until it repays 75 percent of the financial assistance, which is expected in 2059. The total amount of foreign direct investment in the Hellenic Republic from 1961 to 2022 amounts to \$84.49 billion. For the period 2003-2022, the accumulated FDI flow amounts to \$68.12 billion or 80.62% (see Table 2).

At the same time, Greece is liberalizing its legislation on foreign investment to attract more capital. Greece completed its EU bailout programme in 2018, allowing the country to once again access international capital markets to issue public debt securities at market rates. Despite recent economic reforms to boost competitiveness, heavy bureaucracy and a slow judicial system continue to pose challenges for both foreign and domestic investors.

**Table 2:** Foreign Direct Investment in Greece 2003 - 2022

Year	2003	2004	2005	2006	2007	2008	2009
FDI	1.41	2.15	0.53	5.41	1.96	5.73	2.77
Year	2010	2011	2012	2013	2014	2015	2016
FDI	0.53	1.09	1.66	2.95	2.70	1.27	7.95
Year	2017	2018	2019	2020	2021	2022	
FDI	3.44	4.03	5.00	3.30	6.13	7.95	

**Description and Analysis of FDI in Romania**

The total foreign direct investment attracted up to 2022 amounted to \$84.49 billion, with \$68.12 billion or 80.62% for the period 2003-2022.

In terms of FDI, Romania has many advantages such as a large domestic market, a strong industrial tradition combined with the lowest labour costs in the EU and highly educated workforce. This is the reason for the development of a significant industrial sector, in particular automotive industry, as well as services.

Moreover, Romania has one of the lowest tax rates in the EU. The tax policy favours equally industrial investment and start-up initiatives. The amount of foreign direct investment (FDI) in the

country by 2022 amounts to \$137.46 billion, with foreign investment flows amounting to \$128.6 billion for the period 2003-2022, accounting for 93.55% of total FDI (see Table 3).

The industrial sector accounts for 28.9% of the country's GDP and employs 33% of the economically active population. Thanks to cheap labour and many other fundamental factors, the sector is highly competitive. Historically, manufacturing companies in the industrial sector represent the backbone of Romania's economy. For this reason, foreign direct investors are involved in heavy industry (metallurgy, steel), the production of automotive parts, construction, oil and textile industries. According to the World Bank, the manufacturing sector alone contributes 16% of GDP [4].

**Table 3:** Foreign Direct Investment in Romania 2003 - 2022 Bln. \$

Year	2003	2004	2005	2006	2007	2008	2009
FDI	1.84	6.44	6.50	11.01	10.10	13.67	4.64
Year	2010	2011	2012	2013	2014	2015	2016
FDI	3.21	2.37	3.05	3.85	3.87	4.32	6.25
Year	2017	2018	2019	2020	2021	2022	
FDI	5.95	7.34	7.37	3.60	11.74	11.48	

**Description and Analysis of FDI in Serbia, Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, North Macedonia and Kosovo**

After the collapse of the Yugoslav federation, several independent economic entities appeared on the investment field. They differ in their structures and some of them are at a relatively early stage in the procedures for full EU membership.

**Description and Analysis of FDI in Serbia**

Serbian government is making systematic efforts to attract foreign direct capital flows. It is crucial for the Serbian economy

that investment flows are directed towards agriculture and the real economy, which produces goods and services, as growth in these sectors can improve the country's persistently poor trade balances. However, the sectoral organization of investment in the Serbian economy reveals persistent problems in investment policy. More than 60% of all foreign investment is in services, where it is most concentrated. Up to 26% of all FDI is in the financial services sector. Before 2014, the contribution of the financial sector was around 28%, making it much higher [5]. Total FDI for the period 2007-2022 is \$52 billion (see Table 4).

**Table 4:** Foreign Direct Investment in Serbia 2007 – 2022 Bln. \$

Year	2003	2004	2005	2006	2007	2008	2009
FDI	0.00	0.00	0.00	0.00	4.42	4.06	2.93
Year	2010	2011	2012	2013	2014	2015	2016
FDI	1.69	4.93	1.28	2.06	2.00	2.34	2.36
Year	2017	2018	2019	020	2021	2022	
FDI	2.89	4.07	4.27	3.49	4.60	4.61	

Most foreign capital comes from EU countries. Italy invests in the automotive, clothing and textile industries, as well as in banking and insurance (Fiat, Golden Lady, Fondiaria SAI, Intesa, etc.). The United States invests in glass containers, call centres, pharmaceuticals, metal box manufacturing, secondary non-ferrous metals and architectural services (Valeant Pharmaceutical, NCR, LC Comgroup, Ball Corporation). Austria invests in banking, telecommunications, real estate, auto mechanics, plastics

and insurance (VIP Mobile, Erste bank, Uniqa insurance, Raiffeisen). Greece invests mainly in banking (Piraeus Bank, Alpha bank, EFG Eurobank). Norway invests in telecommunications (Telenor). Germany is more diversified by investing in pharmaceuticals, automobiles, commercial banks, cigarette shops, department stores, industrial gases, electrical equipment, metalworking, engines and generators (Stada Hemopharm, Metro AG, Siemens AG, IGB Holding, DM Drogerie). France invests

in the banking sector, flooring retailers, advertising agencies and food industry (Michelin, Tarkett, BSA, Credit Agricole, Societe General, Segur Development).

Some dominant FDI trends in Serbia can be pointed out: Chinese multiple investments in the automotive sector (Fiat, cables, tyres) and Arab investments in agriculture.

### Description and Analysis of FDI in Slovenia

Slovenia, in the opinion of experts, was the most economically developed of all the former Yugoslav countries. There were no military battles on its territory, and it took its way to market reforms relatively painlessly. Today it is a full member of both the European Union and the euro area.

The total accumulated foreign direct investment is \$24.71 billion, with a foreign direct investment inflow of \$20.9 billion for the period 2003-2022, accounting for 84.6% of FDI (see Table 5).

The countries that have made foreign direct investments in the country are Austria (24.9%), Luxembourg (11.9%), Switzerland (11.2%), Croatia (9.7%) and Germany (8.1%). However, Bank

of Slovenia data show that U.S. companies accounted for 8.9% of total inward foreign direct investment (FDI) in 2021, €96.1 million (\$105.5 million) was invested directly and an additional €1.53 billion (\$1.68 billion) was invested indirectly through U.S. affiliates in other European countries. This combined investment of €1.63 billion (\$1.79 billion) placed the United States as the third largest source of direct and indirect foreign investment in Slovenia after Austria (€2.82 billion) and Germany (€2.65 billion). The most important sectors for FDI are manufacturing (31.8%), financial and insurance activities (21.3%), wholesale and retail trade, and repair of motor vehicles and motorcycles (19.4%) [6].

At the end of 2022, the distribution of inward foreign direct investment (FDI) in Slovenia by sector identified manufacturing as the dominant sector, accounting for 32.8% of the total, followed by financial and insurance activities (20.6%) and wholesale and retail trade, including repair of motor vehicles and motorcycles (19.0%). Service activities remained dominant during the observation period, accounting for 64.3% of total inward FDI in Slovenia in 2022, followed by industry (33.2%) and real estate (2.4%). Five investor countries hold just over three-fifths of inward FDI flows into Slovenia [7].

**Table 5:** Foreign Direct Investment in Slovenia 2003 - 2022 Bln.\$

Year	2003	2004	2005	2006	2007	2008	2009
FDI	0.54	0.76	0.97	0.69	1.88	1.08	-0.35
Year	2010	2011	2012	2013	2014	2015	2016
FDI	0.66	1.70	0.07	0.21	2.04	4.01	3.23
Year	2017	2018	2019	2020	2021	2022	
FDI	1.20	1.54	2.15	0.51	2.22	2.18	

In 2023, Slovenia's Ministry of Economy, Tourism and Sport introduced procedures for monitoring investment inputs under the Investment Promotion Act. Slovenia stands extremely well on the investment map in Europe and the Balkans.

### Description and Analysis of FDI in Croatia

Croatia is the second republic of the former members of the Yugoslav federation that is now a member of the EU and the euro

area, like its neighbour Slovenia, with which they have more similarities than differences. The Croatian Government has improved the business climate through a judicial reform, a historic sensitive point for investors, but the economy still faces challenges. These include poor performance of state-owned enterprises, lack of regulatory transparency and delays in approving permits, particularly in the energy sector, which impedes further development.

**Table 6:** Foreign Direct Investment in Croatia 2003 - 2022 Bln.\$

Year	2003	2004	2005	2006	2007	2008	2009
FDI	1.85	1.31	1.81	3.35	4.65	5.25	3.07
Year	2010	2011	2012	2013	2014	2015	2016
FDI	1.55	1.25	1.47	0.96	3.18	0.03	0.44
Year	2017	2018	2019	2020	2021	2022	
FDI	0.45	1.31	3.94	1.25	4.68	3.59	

The total amount of FDI in Croatia for the period of independence from 1992 to 2022 amounted to \$52.34 billion and for the analysed 20-year period 2003 - 2022 their amount totalled \$45.39 billion of FDI or 86.7% of the total value (see Table 6). According to official UNCTAD data, the main investor countries are the Netherlands (16%), Austria (14%), Germany (11%), Luxembourg (10%), Italy (9%) and Hungary (7%).

The sectors receiving the most FDI are financial services (25%), manufacturing (17%), real estate (16%), wholesale and retail trade (14%), ICT (7%) and tourism (4% - source: Ministry of

Economy) [8]. Croatia does not apply foreign investment monitoring procedures. It applies the same regulations to both foreign and domestic investors, except for certain sectors where foreign ownership is restricted (e.g. inland waterway transport, maritime transport, rail transport, air-ground handling, freight-forwarding, publishing, ski training and primary compulsory healthcare).

Croatia applies an open-door policy for foreign investors. The government is committed to increasing foreign investment and is taking measures to improve the investment climate in the country. To achieve this goal, it has implemented tax benefits

and employment incentives for manufacturing, technology centres and services.

#### Description and Analysis of FDI in Bosnia and Herzegovina

Bosnia and Herzegovina has gone through extremely difficult events in the process of separating from the rest countries of the former Yugoslavia. In addition to its heavy political and economic legacy, it is divided between the three ethnic communities - Bosniaks, Croats and Serbs - that make up the new state.

Bosnia and Herzegovina offers investors low levels of corporate

taxation, several well-developed industrial zones, a solid banking sector and its strategic location. The country also has natural resources providing potential opportunities for various projects in different sectors of the economy such as energy (hydro, wind, solar, along with traditional thermal energy), agriculture and forestry, and tourism.

The total foreign direct investment attracted in the country till 2022 amounted to \$12.92 billion and for the period 2003-2022 - \$12.13 billion or 93.9% of the total investment (see Table 7).

**Table 7:** Foreign Direct Investment in Bosnia and Herzegovina 2003 - 2022 Bln.\$

Year	2003	2004	2005	2006	2007	2008	2009
FDI	0.38	0.89	0.62	0.85	1.84	0.39	0.14
Year	2010	2011	2012	2013	2014	2015	2016
FDI	0.44	0.47	0.39	0.31	0.54	0.38	0.31
Year	2017	2018	2019	2020	2021	2022	
FDI	0.51	0.60	0.45	0.48	0.73	0.80	

The factors that create positive expectations for the growth of FDI levels in Bosnia and Herzegovina have been elaborated by experts and are based on the implemented current projects, investment opportunities, the intention to privatize many strategic companies and the interest shown by foreign investors for potential projects [9]. Nowadays, Bosnia and Herzegovina is considered to be an above-average income country compared to Western Balkan countries. It has been achieving very good results since 1995, the year in which the inter-ethnic conflict ended after the signing of the Dayton Peace Agreement. Recovering from the COVID crisis, the economy growth slowed again in the first half of 2023, due to weakened external demand and subdued private consumption amid relatively high but falling inflation.

The major investor countries, after the economic crises of 2008-2009, that made direct investments are Austria - EUR 1.360 billion, Croatia - €1.172 billion, Serbia - €1.035 billion, Slovenia - €0.5 billion, the Netherlands - €0.445 billion, etc. The leading sectors that attracted most FDI are - manufacturing with 28%, financial and insurance activities - 26%, information and communication technology sector -13%, wholesale and retail trade, and car repair - 12%, etc. [10].

#### Description and Analysis of FDI in North Macedonia

The Republic of North Macedonia has had a long and compli-

cated economic journey since its separation from the former Yugoslavia and its political independence. It is a full member of the North Atlantic Treaty Organization and is in the process of joining the European Union. Its available resources are relatively modest compared to other republics of the former Yugoslavia. The total amount of foreign direct investment in the Republic of North Macedonia amounts to \$9.31 billion. For the period 2003 - 2022, the accumulated FDI flow amounts to \$8.21 billion, or 88.2% of the total amount of investments (see Table 8).

Foreign investment provides an important pathway for the development of North Macedonia's economy. North Macedonia's legal and regulatory framework is generally favourable to foreign investors and provides many incentives to attract them. In addition, the country adopted a new law to create more favourable conditions for strategic investments. Foreign investors can invest directly in all industrial and business sectors, except those restricted by law. For example, investments in the arms and pharmaceutical industries require government approval. In addition, sectors such as banking, financial services, insurance, and energy impose specific licensing requirements that are applicable to both domestic and foreign investors, while the country does not have a national mechanism for verifying investments against international standards [11].

**Table 8:** Foreign Direct Investment in North Macedonia 2003 - 2022 Bln.\$

Year	2003	2004	2005	2006	2007	2008	2009
FDI	0.12	0.31	0.15	0.43	0.73	0.61	0.26
Year	2010	2011	2012	2013	2014	2015	2016
FDI	0.30	0.51	0.34	0.40	0.06	0.30	0.55
Year	2017	2018	2019	2020	2021	2022	
FDI	0.38	0.65	0.55	0.01	0.70	0.85	

North Macedonia is making considerable efforts to harmonize its legal framework with the criteria, standards and practices of the European Union. The digitalization and green energy sectors have been identified as strategic by the government. According to experts, accompanied by relevant statistical evidence, renewable energy projects have contributed most to the flow of FDI in

North Macedonia, totalling \$739 million, ahead of the real estate sector at \$409 million and the IT sector at \$381 million for the period - from January 2017 to July 2022.

The major foreign investors in the country are the United Kingdom (€634 million), Germany (€572 million) and the Nether-

lands (€544 million). In terms of investment activities, the manufacturing industry attracts the highest share, accounting for €2,453 million or 35% of total direct investment, while financial and insurance activities receive €1,520 million or 21.7%. North Macedonia creates a favourable economic environment for both local and foreign investors to set up businesses. The country applies a uniform tax rate of 10% for corporate and personal taxes. The legal framework also includes a one-stop-shop system that aims to address some of the administrative barriers to business entry in North Macedonia. The Law of Industrial and Technological Zones provide special tax arrangements for any investor investing in the designated zones.

**Table 9:** Foreign Direct Investment in Montenegro 2007 - 2022 Bln.\$

Year	2003	2004	2005	2006	2007	2008	2009
FDI	0.00	0.00	0.00	0.00	0.94	0.98	1.55
Year	2010	2011	2012	2013	2014	2015	2016
FDI	0.76	0.56	0.62	0.45	0.50	0.70	0.23
Year	2017	2018	2019	2020	2021	2022	
FDI	0.56	0.49	0.42	0.53	0.69	0.87	

The total amount of FDI for the period 2007-2022 is \$10.85 billion (see Table 9). The sectors attracting the most FDI in Montenegro are tourism, real estate, energy, telecommunications, banking and construction. Data from the Investment Promotion Agency of Montenegro show that the main investor countries are Russia (14.8% of inflows between 2010-20), Switzerland (6.8%), Serbia (6%), Austria (5.9%), Italy (5.9%), and the Netherlands (5.4%).

The country offers great economic freedom and monetary stability. It should be noted that the country's currency is the euro. Domestic and foreign investors are placed on an equal footing in the country. Foreign companies can own 100% of local enterprises, and their profits and dividends can be repatriated without restrictions. Corruption, the politicization of justice, organized crime, an approximate and unreliable land registry and a slug-

### Description and Analysis of FDI in Montenegro

The Republic of Montenegro is the smallest of the former Yugoslav republics. It was the last to leave the former Yugoslav state union. As the smallest country on the Balkans, Montenegro has a relatively fragile economy, which is being transformed into a market system and is based on financial investment, especially in the energy and tourism sectors (private investment accounts for about a fifth of GDP). The Republic of Montenegro has the potential to become an investment magnet due to its business-oriented economic system and low corporate tax rate.

gish bureaucracy can be seen as weaknesses in the FDI attraction process. The Privatization and Capital Investment Council is the state institution that manages, controls and implements the privatization process in the country, which now includes almost 90% of former state-owned enterprises [12].

### Description and Analysis of FDI in Kosovo

Foreign direct investment in Kosovo plays an important role in the region's economy. The total amount of FDI for the period 2003-2022 is \$7.11 billion (see Table 10).

Foreign investors in Kosovo include mostly regional European countries such as Germany, Turkey, Albania, Croatia and Macedonia. Most foreign investment is concentrated in Pristina, with a particular focus on banking, construction and transport.

**Table 10:** Foreign Direct Investment in Kosovo 2004 – 2022 Bln. \$

Year	2003	2004	2005	2006	2007	2008	2009
FDI	0.00	0.05	0.13	0.37	0.60	0.54	0.40
Year	2010	2011	2012	2013	2014	2015	2016
FDI	0.49	0.54	0.29	0.37	0.20	0.34	0.24
Year	2017	2018	2019	2020	2021	2022	
FDI	0.29	0.32	0.29	0.39	0.50	0.76	

Although there is foreign investment in the Republic of Kosovo, in the opinion of experts the current capital flows are not sufficient to fully meet the economic needs of the country. The country faces a number of social and economic problems that can be summarized as follows:

- Unstable political situation
- Limited capacity of the banking system in Kosovo
- Lack of financial and securities market
- Poor infrastructure
- High unemployment rate

The favourable business climate, the stable macroeconomic environment and the excellent opportunities in various business sectors make it possible, however slowly, for the country to increasingly become a very attractive place to do business. As a re-

sult, the interest of foreign investors has been steadily increasing in recent years, and with it the inflow of FDI [13].

The country's regulatory environment is in line with international standards for investment support and protection, although implementation is accompanied by some difficulties. The Republic of Kosovo has a flat corporate income tax of 10%. With international assistance, Kosovo's public authorities established a Commercial Court in August 2022, which aims to handle business disputes fairly and predictably. This is expected to improve the business-friendly environment by reducing opportunities for corruption and building trust of investors and the private sector in the judicial system.

### Description and Analysis of FDI in Albania

The economy of the Republic of Albania has gone through a long process of transition from a command-and-control system to a market-oriented economy based on free market principles. The economy relies on the service sector (54.1%), agriculture (21.7%) and industry (24.2%) [3]. The country has some natural resources and the economy is mainly supported by agriculture, food processing, timber, oil, cement, chemicals, mining, basic

**Table 11:** Foreign Direct Investment in Albania 2003 - 2022 Bln.\$

Year	2003	2004	2005	2006	2007	2008	2009
FDI	0.18	0.34	0.26	0.33	0.65	1.25	1.35
Year	2010	2011	2012	2013	2014	2015	2016
FDI	1.09	1.05	0.92	1.25	1.15	0.99	1.04
Year	2017	2018	2019	2020	2021	2022	
FDI	1.02	1.20	1.20	1.07	1.22	1.44	

According to the Albanian Investment Development Agency (AIDA), the focus for the future development of the Albanian economy will remain on attracting FDI [15].

The main advantages are:

- Liberal and reformist investment climate
- Competitive labour costs
- Young and well-educated population
- Competitive taxation and incentives
- Optimum geographical location
- Strong growth potential
- Free Economic Zones
- Free access to large markets
- Macroeconomic stability

Domestic and foreign investors have equal obligations and rights, with special priority given to sectors with high development potential such as renewable energy, mining, tourism, manufacturing, agriculture, transport and logistics, and ICT services.

Switzerland, Greece, the Netherlands, Canada, Italy, Turkey and Austria are the most economically active countries making investments in Albania. The most preferred sectors for investment by foreign entrepreneurs are distribution of electricity, gas and water, information and communication technologies, extractive industries, financial and insurance activities, industrial production.

A brief overview of FDI in Albania shows the crucial impor-

metals, hydropower, tourism, textiles and oil extraction. The strongest sectors are energy, mining, metallurgy, agriculture and tourism. The main industrial exports are clothing and chrome [14].

The total amount of direct investment attracted in the country amounts to \$19.92 billion for the period 2003 - 2022 or 95.1% of total investment (see Table 11).

tance of foreign investment for the country's overall economy. For decades, they have promoted economic growth, employment and fiscal stability. The Albanian economy increasingly relies on foreign capital flows and foreign investment and entrepreneurial activity.

### Description and Analysis of FDI in Bulgaria

Foreign direct investment plays an important role in the economic life of Bulgaria. Over the last thirty years, foreign investment flows into the country have been extremely unevenly distributed both across the sectors of the national economy and across the country's planning regions. It could be claimed that the process of attracting foreign direct investment was due to the entry of various entrepreneurs pursuing their own goals rather than a developed strategy, both at sectoral and regional levels. This conclusion is fully true for the first years of transition.

This calls for the need to draw relevant analyses and conclusions about the positives and negatives of the impact of FDI in different sectors and their localization in the country at the end of this relatively long period of time, covering the beginning of the political and social changes from the early 1990s to the end of 2022.

The total amount of FDI attracted in the country up to 2022 amounted to \$78.11 billion, with accumulated FDI for the period 2003-2022 amounting to \$73.09 billion or 93.6% of total investment (see Table 12).

**Table 12:** Foreign Direct Investment in Bulgaria 2003 - 2022 Bln.\$

Year	2003	2004	2005	2006	2007	2008	2009
FDI	0.18	0.34	0.26	0.33	0.65	1.25	1.35
Year	2010	2011	2012	2013	2014	2015	2016
FDI	1.09	1.05	0.92	1.25	1.15	0.99	1.04
Year	2017	2018	2019	2020	2021	2022	
FDI	1.02	1.20	1.20	1.07	1.22	1.44	

FDI flows to Bulgaria have maintained a relatively stable rate since the early 2000s and reached a historical peak in 2007 of \$13.88 billion (UNCTAD). According to UNCTAD's World Investment Report 2023, FDI inflows declined in 2022 to \$2.5 billion [16].

The highest net FDI inflow to Bulgaria in 2023 of \$862 million comes from Switzerland, followed by Austria with \$396 million and Belgium with \$354 million. Technology, media and telecommunications remain the most active sectors for inward foreign investment in Bulgaria, followed by construction, real

estate and financial services. However, they do not give a clear picture of their territorial location.

At present, however, there are two problems that deserve analysts' attention. The first is the problem of territorial allocation of foreign capital flows. It is worrying that foreign companies are located in the area around the capital, while in the cities in the countryside the presence of foreign entrepreneurs is an exception rather than a rule. The second problem relates to the sectoral focus of investment, which will remain highly relevant, not only during the crisis, but especially after the crisis. Of particular interest is the analysis of economic development, interpreted from the perspective of foreign direct investment and its localisation in the country. If the sectoral analysis gives grounds for some concern, the monitoring of regional development gives far greater grounds for negative conclusions.

It should be noted that Bulgaria is making a number of efforts to improve the regulatory framework. Some international legal documents have been ratified, which provide a fundamentally new basis for the protection of private investments. In addition, more than fifty mutual protection and investment promotion agreements and nearly as many double tax treaties have been

concluded, becoming an integral part of the national regulatory framework built and improved over a thirty-year period. It can be summarised that all the conditions are in place for foreign investment in the various sectors of the national economy.

The relationship between GDP change and FDI on an annual basis for each individual Balkan country is of particular interest. We use the Spearman's coefficient [17] for this purpose.

$$\rho = 1 - \frac{6 * \sum d^2}{N(N^2 - 1)} \quad (1)$$

where:

$\rho$  – rank correlation coefficient;

$r_1$  – rank of relative GDP share by year, in %;

$r_2$  – FDI rank by year in billion \$;

$d = |r_1 - r_2|$  - difference in the ranks obtained in determining the place of each year;

$N$  – the number of years in the rows in determining the Spearman's coefficient for each country.

We use data on the % change in GDP and the amount of foreign direct investment for the period 2003-2022 from official UNC-TAD data. The calculations have been done by using EXCEL.

**Table 13:** Ranking by Spearman's Rank

N in order	Country	Spearman rank
1	Montenegro	0,959
2	Bosnia and Herzegovina	0,892
3	Serbia	0,886
4	Bulgaria	0,880
5	Croatia	0,868
6	Romania	0,855
7	North Macedonia	0,841
8	Kosovo	0,728
9	Albania	0,688
10	Greece	0,686
11	Slovenia	0,661
12	Turkey	0,368

The countries with the highest rank of correlation are relatively "small" economies, as Montenegro takes the first place, Bosnia and Herzegovina the second, Serbia the third. The coefficients are relatively very close, highlighting the close relationship between GDP and FDI inflows. The exception to this rule is Turkey, where many factors operate to attract foreign capital flows [18-20].

The Balkan region is not homogeneous in terms of attracting foreign capital flows. The reasons are many and varied - historical, political, economic and social. Their genesis is diverse and it is difficult to apply any framework and a unified approach to the state of the investment environment in each country. It is obvious that global economic crises and events of planetary scale are putting a lasting imprint on the dynamics of investment flows and slowing down FDI inflows into the Balkan countries. For some countries, namely the countries that have followed the path of the European Union, the investment environment is the most favourable. For another group of countries that are in the process of negotiating full membership, and especially for those in the

Western Balkans, there are favourable opportunities to improve the investment climate, both in the region and in each country individually.

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