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EFFECT OF CORRUPTION ON FOREIGN DIRECT INVESTMENT INFLOWS IN COUNTRIES OF THE WESTERN BALKANS

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Abstract: *The purpose of this study was to investigate the effect of corruption on Foreign Direct Investment (FDI) in the Western Balkans countries, including Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, North Macedonia, Serbia, and Albania. Secondary data from The World Bank, Transparency International, and International Monetary Fund databases were utilized to complete this study for 2012-2020. The built model of multiple linear regression included four independent variables, namely: Corruption Perception Index (CPI), Western Balkan Corruption Ranking (WBCR), Exchange Rate (EXG), and Inflation Rate (INFL), as well as FDI as a dependent variable, and data effects were analyzed through the SPPS scientific research software program. The results found that if CPI and WBCR were to increase by one unit, FDI would decrease by 0.088, namely 0.624, while if EXG and INFL were to increase by one unit, FDI would increase by 0.165, namely 0.236. In order to fight corruption and potentially attract more foreign direct investment, the governments of these countries should work to harmonize their anti-corruption laws with those of the European Union. In order to prevent the negative consequences of FDI inflows, they should also maintain a balanced rate of inflation, which entails stabilizing exchange rate fluctuations.*

Keywords: *Foreign Direct Investment; Corruption; Inflation Rate; Exchange Rate; Western Balkans*

INTRODUCTION

Numerous studies on the impact of corruption on foreign direct investment (FDI) have been conducted by different authors. The impact of the corruption phenomena on FDI inflows is a topic that, for Western Balkans countries, is evaluated without sufficient scientific research. As a result, we have aimed to use the model at hand to identify the relevant effect. Studies on FDI gained popularity, particularly after World War II (Hosseini 2005), because they improved our understanding of how economic agents behave and how economies generally work (Denisia 2010). FDI inflows are always seen as an important source of financing from abroad, not only between economies in transition and those under development but also between the economies of developed countries. FDI is an investment that reflects a lasting interest and control by a foreign direct investor, resident in one economy, in a residence of an enterprise in another economy (foreign subsidiary) (UNCTAD 2021).

FDI fills crucial gaps in developing countries by providing investment funds, making foreign currency available, and raising tax revenue for the government (Quazi, Vemuri, and Soliman 2014). However, for the Western Balkan countries in transition, the requirement for dynamic FDI inflows becomes one of the key prerequisites for their future economic development, given the lack of sufficient domestic savings and the narrowing opportunities for

further borrowing from international financial institutions (Popović-Avrić, Đenić, and Milenković 2014). In the OECD research (2002) on maximizing the profits and minimizing the costs of FDI for development, it is emphasized that developing and transition countries and economies have increasingly begun to see FDI as a source of development and economic modernization, income growth, and employment, thus following internal policies for the attraction of FDI in order to maximize the benefit from the presence of FDI in their internal economies. The Western Balkans region has seen a considerable increase in new foreign direct investment (FDI) since the 2008 global economic crisis. Furthermore, for the first time in countries in transition, FDI has flowed into the production sector (Krasniqi, Ahmetbasić, and Bartlett 2022).

Despite having roughly the same population composition and similar GDPs, all Western Balkan countries (except Albania) that emerged from the former Yugoslav Federation (until 2006, when Montenegro gained independence) had differing FDI inflows. In this regard, if we examine the FDI flow concerning GDP in the data of Graph 1, where the average percentage of FDI concerning GDP of each country is extracted from 2012 to 2020, it turns out that Montenegro has the highest average percentage (10.82%), followed by Albania (8.26%), Serbia (5.83%), Kosovo (4.32%), North Macedonia (3.19%), Croatia (2.44%), and Bosnia and Herzegovina (2.37%). Except for 2015 and 2020, which have a downward trend compared to the previous periods, FDI has played a significant role in the development of the seven Western Balkan countries, attracting a total cumulative gross FDI of nearly USD 61.93 billion from 2012 through 2020. The corresponding Graph shows that 2019, with almost 11.06 billion USD, saw the highest FDI inflows. Based on the data of Graph 3, we can see that the largest inflows of FDI for the period 2012-2020 (that is, cumulative of FDI) belong to Serbia at 24.75 billion USD, namely 39.97% of the total of 61.93 billion USD, followed by Croatia at over 12.96 billion USD, namely, 20.94% of the total FDI, and Albania at over 9.85 billion USD, while the rest of 14.35 billion USD or 23.18% belong to FDI inflows of other countries such as Montenegro (4.47 billion USD or 7.23%), Bosnia and Herzegovina (3.90 billion USD or 6.31%), North Macedonia (3.23 billion USD or 5.22%), and Kosovo (2.73 billion USD or 4.42%). From the data of Graph 4, we can see that the largest cumulative inflows of FDI belong to the period 2015-2016 in both World and European Union trend, while the largest inflows to the countries of the Western Balkans belong to 2019, while 2020 marks the biggest decline in FDI in all regions introduced. Western Balkans FDI inflows account for approximately 0.43% of global FDI inflows on average, though this trend has increased in the last two years, with 2019 at 0.72% and 2020 at 0.71%. FDI inflows in the economies of the Western Balkans emphasize the high dependence of the region, which mainly comes from EU member states such as Austria, Germany, Greece, Italy, the Netherlands, and Slovenia, as well as the United Kingdom, the United States, and the Russian Federation, which have been severely affected by the Covid-19 pandemic crisis (OECD 2020). The Covid-19 pandemic resulted in a worldwide slowdown in investment projects, and the prospect of a recession prompted multinational enterprises (MNEs) to reassess new projects, resulting in a 35% decrease in FDI flows globally in 2022, namely to 1 trillion dollars from 1.5 trillion dollars last year (UNCTAD 2021).

The level of corruption in the host economy is one of the factors identified as significant in determining the choice of FDI location, even though many factors, including production, employment, income, prices, exports, imports, and balance of payments, can affect FDI inflows in

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developing countries and have an impact on the economic growth and general well-being of the host countries (Moustafa 2021). Developing countries can attract more FDI by creating a quality institutional structure, effectively fighting corruption, and creating sound macroeconomic policies that improve the investment climate and reduce costs, uncertainty, and risk perception (Türedi 2018).

LITERATURE REVIEW

Theoretical Framework

Extensive research and analysis have offered different perspectives and views to address the issues that corruption and its detrimental consequences to FDI have caused in various countries and societies. Empirical studies on FDI suggest that corruption does not affect FDI inflows; others suggest that corruption negatively impacts FDI inflows. However, some studies suggest that corruption positively impacts FDI inflows in a country, and others suggest that corruption has mixed results in FDI inflows and corruption. Foreign Direct Investment (FDI) is a capital investment with a minimum threshold of 10% and a goal of sustainable ownership and managerial interest (Hasan, Rahman, and Iqbal 2017). Corruption involves an implicit agreement between companies, pressure groups, and citizens who are trying to satisfy their selfish interests and exploit private benefits by paying bribes, as well as government officials and politicians who also tend to maximize their income by illegal means using their positions and the authority they possess (Gribincea 2017). Significant increases in global FDI flows have many implications for countries, such as the spread of technology, improvements in human capital, ease of access to global markets, and increased competition, making the macroeconomic and institutional determinants of FDI inflows extremely important for countries in attracting more FDI flows (Bellos and Subasat 2011). Foreign investors have, in recent years, paid considerable attention and importance to the institutional framework of the countries that undertake investments (OECD 2002). Some institutional aspects, such as the unpredictability of laws, regulations, and policies; excessive regulatory burden; government instability; and lack of commitment, play a major role in deterring FDI (Daude and Stein 2007). However, among the most important reasons for FDI are job creation, increased productivity, increased competition, increased exports, and access to international capital markets (Denisia 2010, 104).

Corruption is one of the key institutional factors. There are two primary views on how it affects FDI inflows: the view that suggests that corruption negatively affects FDI inflows as it increases costs, weakens transparency, property rights, and the competitive environment, and hinders the efficient functioning of governments, and the view that suggests that corruption positively affects FDI inflows as it can eliminate problems arising from weak institutions and regulations (Bellos and Subasat 2011). First of all, because it is simpler for investors to determine a project's profitability in countries with appealing, transparent, open economies and low levels of corruption, investments tend to flow there (Gasanova, Medvedev, and Komotskiy 2017). The CPI is typically used as a single quantitative variable to measure corruption as a key qualitative indicator with a two-way relationship in attracting or repulsing FDI inflows (Hasan, Rahman, and Iqbal 2017, 180). Corruption is measured through two variables, the Corruption Perception Index

(CPI) and the Western Balkans Country's Corruption Ranking (WBCR). The CPI measures how corrupt the public sector of each country is perceived to be, according to experts and business people, including 180 countries (Transparency International 2021), where countries are ranked based on cumulative scores ranging from 1 (highest risk level of corruption) to 10 (lowest risk of corruption) (Iloie 2015) namely, from 0 (very corrupt) to 100 (very clean). Meanwhile, the WBCR measures the country's ranking according to the degree of corruption, showing the progress achieved (through the number of promoted positions) or the regression achieved (through the number of reduced positions).

The inflation rate is a decisive factor in influencing the inflow of foreign investments (Project Guru 2016). According to Coban and Yussif (2019), inflation is estimated to have a two-way causal effect on FDI inflows. A stable inflation rate is desirable for attracting foreign capital (Siddiqui and Aumeboonsuke 2014, 68). A high inflation rate implies economic instability, risk, and confusion related to the failure of appropriate government policies, especially the fiscal and monetary policy mix, thus being associated with lower FDI inflows (Khan and Mitra 2014, 127). Another important factor in FDI activity is the behavior of exchange rates, which determines the price of the local currency about the price of a foreign currency and influences both the total amount of FDI that occurs and the distribution of these investment expenditures in many countries (Goldberg 2006). According to the author, a currency depreciates when its value declines relative to the value of another currency. This movement of the exchange rate has two potential implications for FDI, namely: first, it reduces wages and production costs in that country compared to those of its foreign counterparts; and second, anticipated exchange rate movements may be reflected in a higher cost of financing the investment project as conditions of parity. Therefore, the average rate of FDI inflows is positively and significantly impacted by the exchange rate under a favorable FDI environment (Alba, Park, and Wang 2009, 13).

EMPIRICAL REVIEW

Studies with Mixed Findings on Corruption

Factual findings from numerous studies have demonstrated that FDI inflows into a country have mixed views on corruption. De Jong and Bogmans (2011), who investigated the impact of corruption on international trade by evaluating the extent of corruption in an importing economy and comparing it with the level of corruption found in an exporting economy, discovered mixed results regarding corruption and FDI inflows. The results showed that both scenarios were important and interesting. However, the study found that corruption was more obvious in importing countries with ineffective customs since extended border delays had a major detrimental impact on global trade. The study's main conclusion (Godinez and Liu 2015) evaluated the relationship between corruption distance and FDI inflows. It found that firms with residents in high-corruptibility countries are typically unaffected by the level of corruption in the host countries where investment opportunities are found because they share a common background and have the skills necessary to handle the situation. The effects of corruption on FDI inflows were studied using China and India as case studies, and the results varied for both nations. Despite the belief that corruption facilitates FDI inflows into an economy

(Hasan, Rahman, and Iqbal 2017, 180) found that the former had a positive impact while the latter had a negative one.

In their study, Peres, Ameer, and Xu (2018) examined the impact of institutional quality on FDI, classifying countries as developed or developing through corruption control and the rule of law indicators. The findings reveal that institutional quality positively and significantly impacts FDI inflows in developed countries. In contrast, the findings for developing countries reveal that institutional quality (*ceteris paribus*) has a non-significant impact because of the weak structure of institutions.

Corruption's Non-Impact on FDI Inflows

Bellos and Subasat (2011) applied the panel gravity model to examine the relationship between FDI inflows and corruption in 15 countries with transition economies from 1990 to 2005. The study found that corruption had no statistically significant impact on FDI inflows. Bayar and Alakbarov (2016) examined the impact of corruption on FDI inflows in 23 developing economies, finding that corruption and the role of the law had no significant impact on FDI inflows. Also, Busse and Hefeker (2007) tested the effects of various indicators of institutional quality on FDI for 83 developing countries and 49 less developed countries, and their findings showed a non-significant relationship between FDI and corruption. Estrin and Uvalic (2016) show that FDI inflows have had almost no significant impact on the added value of production, employment in production, and exports of the Western Balkan countries.

Corruption's Harms on FDI Inflows

The majority of research by various authors shows a relationship and a negative impact between corruption and FDI, from the point of view that corruption is initially viewed as an indicator with a negative impact on FDI. The authors Gasanova, Medvedev, and Komotskiy (2017) evaluated the impact of corruption on FDI inflows, and the findings showed that countries with low levels of corruption and favorable economic environments attract FDI inflows, while those with high levels of corruption and unfavorable economic environments do not. Pupovic (2012), Woo J. Y. (2010), Brada, Drabek, and Perez (2012), Alemu (2012), Mengistu Alemu (2012), and Quazi (2014) investigated the effect of corruption on FDI and found that corruption had negative effects on FDI inflows. Castro and Nunes (2013) investigated the impact of corruption on FDI, and the findings found that corruption had negative effects on FDI inflows. Mauro (1995) analyzed a data set consisting of subjective indices of corruption, the amount of bureaucracy, the efficiency of the judicial system, and different categories of political stability for a cross-section of countries, finding that corruption reduces investment and this causes a reduction in economic growth. Also, corruption worsens poverty and income distribution (Gupta, Davoodi, and Alonso-Terme 1998). As such, corruption is considered an influential factor in the underdevelopment of the economies of various countries, including developed countries. In the econometric study of the relationships between key variables conducted by Akindele (2005) through a modified production function, which includes work, capital, political instability, corruption, and income inequality, it was found that the CPI (corruption) is negative. As such, it

shows that corruption delays development efforts, noting that even a nation rich in human and natural resources may fail to develop beneficially for most citizens where corruption exists.

Empirical data from significant studies suggests that corruption plays a negative role in attracting FDI to Western Balkans countries and is inversely correlated with income levels in the region, with higher levels of corruption being associated with lower per capita income (Zeneli 2016). According to this study, corruption impedes the region's economic growth by distorting government expenditures, creating negative current account balances, evading taxes, stifling competition, and reducing economic innovation.

Corruption's Positive Impact on FDI Inflows

While analyzing their study on the impact of corruption on FDI, the authors Quazi, Vemuri, and Soliman (2014) confirmed the theory of corruption assistance, implying the acceleration of FDI inflows through corruption, and this, as the general regulatory environment, is likely to be weak. Saidi, Ochi, and Ghadri (2013) investigated the relationship between institutional variables and FDI inflows in developed and developing countries and discovered that political stability, regulatory quality, and corruption control positively impacted FDI inflows. Kersan-Škabić (2013) investigated the institutional determinants of FDI inflows in Southeast European countries and found that corruption significantly impacted FDI inflows. Likewise, the authors Like and Eichler (2016) investigated the institutional determinants of FDI, finding that regulatory quality and economic freedom positively impacted FDI inflows, including a non-significant positive impact of corruption on FDI. The findings by Eggera and Winner (2005) showed a clear positive relationship between corruption and FDI, implying that corruption had a stimulating effect on FDI and also emphasizing that the positive impact of corruption on FDI suggests that the presence of excessive regulation and bureaucratic discretion by government officials shares the gains from FDI. The empirical work of Gasanova, Medvedev, and Komotskiy (2017) showed that corruption in countries in transition is not an obstacle but an attractive source for multinational companies, thus reflecting interesting results that contradict most of the large body of relevant literature. Indeed, there is reason to believe that the positive correlation between corruption and FDI in transition countries may be due to their specific transition problems that cannot be generalized (Woo 2010).

METHODOLOGY

Seven Western Balkans countries' historical and secondary data were used to conduct this study, with the inflows of FDI into these countries serving as the dependent variable. In contrast, the Corruption Perception Index (CPI), Western Balkan Countries' Corruption Ranking (WBCR), Exchange Rate (EXG), and Inflation Rate (INF) are the independent explanatory variables.

The data for each variable of the model were obtained from the official websites of the relevant institutions: for FDI, the data were obtained from the International Monetary Fund; for CPI and WBCR, the data were obtained from the annual reports of the corruption index of Transparency International (were extracted from Transparency International annual corruption

index reports); while for EXG and INFL, the data were obtained from the World Bank. All the data collected for the dependent and independent variables is from 2012 to 2020. Because of the disparity in the values, all the data was expressed in the logarithmic form to bring them all on the same level[1].

In the relevant research, the Ordinary Least Squares (OLS) technique was used to perform multiple regression analysis with the help of the Statistical Package for Social Sciences (SPSS) to test corruption's effect on foreign direct investment in countries of the Western Balkans. To determine the relationship between the dependent variable and the independent variables, the following multiple regression equation was used based on the model designed by Omodero (2019):

$$FDI = \beta_0 + \beta_1 CPI + \beta_2 WBCR + \beta_3 EXG + \beta_4 INFL + \varepsilon_j$$

Where,

FDI = Foreign Direct Investment
CPI = Corruption Perception Index
WBCR = Western Balkans Countries Corruption Ranking
EXG = Exchange Rate
INFL= Inflation Rate
$\mathbf{B_0}$ = Regression Coefficient (Constant)
$\beta_1, \beta_2, \beta_3, \beta_4$ = Regression Coefficientfor CPI, WBCR, EXG, INFL
ε_j = Error Term

FINDINGS AND DISCUSSIONS

Model Suitability Test Results

To determine the relationship through regression analysis between the dependent variable of Foreign Direct Investment (FDI) and the variables related to the level of corruption as independent variables (CPI, WBCR, EXG, INFL), Table 1 shows the results issued by SPPS.

Table 1: Regression Model Summary (Source: Author's computation 2022)

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.506[a]	.256	.204	.41730	1.503
a. Predictors: (Constant), INFL, CPI, WBCR, EXG					
b. Dependent Variable: FDI					

[1]It is worth mentioning that in some of the annual periods there were data with negative values (cases when countries had a decrease in CPI and deflation, namely negative inflation) and that both relevant variables had to be previously adjusted in the case of their logarithm by finding the minimum of the values of the corresponding variable and setting this in absolute value and adding this value for one and then the same value being added for each individual annual value before adjustment and determining the natural logarithm of the obtained result.

The summary results from the regression analysis, namely the correlation coefficient (R=0.506), suggest a medium-positive relationship of 50.6% between FDI as the dependent variable and the predicted independent variables (CPI, WBCR, EXG, and INFL). Similarly, the coefficient of determination (R Square=.256) shows that the independent variables account for only 25.6% of the total variance of FDI in Western Balkan countries, implying that the remaining 74.4 percent is due to other variations not accounted for by the investigated model. The derived Durbin-Watson statistic of 1.503 shows that the regression model's residuals are serially connected because the value is within the permitted range of 1.5.

Analysis of Variance

In order to test the suitability of the regression model, the Analysis of Variance (ANOVA) was also conducted, which, according to the resulting data, shows the result of the F test of 4.977, implying that the independent variables (CPI, WBCR, EXG, and INFL) collectively influence the dependent variable FDI significantly and positively, with a significance level of 0.2% (p=0.002<0.05), which suggests that, although corruption is not the only factor that affects FDI, the analytical model for assessing its impact has good suitability and, consequently, reliability in establishing relationships between the independent variables (CPI, WBCR, EXG, and INFL) and the dependent variable FDI. The results obtained through SPSS are presented in Table 2.

Table 2: Analysis of Variance (ANOVA) (Source: Author's computation 2022)

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.467	4	.867	4.977	.002[b]
	Residual	10.100	58	.174		
	Total	13.567	62			
a. Dependent Variable: FDI						
b. Predictors: (Constant), INFL, CPI, WBCR, EXG						

Estimated Model

Table 3 tests the independent variables individually using the t-test to determine their impact on FDI in Western Balkan countries. The regression coefficients revealed that at the confidence level of 95%, CPI and WBCR have a negative effect (t=-1.880, namely t=-1.142) and are statistically insignificant (p=0.065>0.05, namely p=0.258>0.05). In contrast, EXG and INFL have a positive effect (t=2.629, namely t=2.037) and are statistically significant (p=0.011<0.05, namely p=0.046<0.05) on FDI in Western Balkan countries for the data of the period 2012-2020. The constant value of 9,835 shows that if the independent variables (CPI, WBCR, EXG, and INFL) were not part of the built model, the FDI of the Western Balkan countries would be weaker with little impact.

Table 3: Regression of Coefficients (t-value and p-value) (Source: Author's computation 2022)

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.835	1.045		9.415	.000
	LOG CPI	-.088	.047	-.214	-1.880	.065
	LOG WBCR	-.624	.546	-.131	-1.142	.258
	LOG EXG	.165	.063	.316	2.629	.011
	LOG INFL	.236	.116	.243	2.037	.046
a. Dependent Variable: LOG FDI						

The value of the t-test for the CPI shows that the CPI has an almost significant negative impact on FDI, implying that if the countries of the Western Balkans, as a single region, have an increase in the perception of the corruption index, this will have an impact on the decline of FDI. The theories of the negative effect of corruption on FDI are consistent with the authors' findings (Woo 2010; Alemu 2012, 387; Pupovic 2012; Brada, Drabek, and Perez 2012; Gasanova, Medvedev, and Komotskiy 2017, 2). The study, however, goes against the author's findings (Gutierrez 2015, 21), which indicated that corruption had a favorable and significant impact on FDI. According to the data in Table 3, the t-test value for WBCR indicates that the region's increased corruption has a negative but non-significant impact on foreign direct investment; if the Western Balkans as a whole experience a decline in FDI, this will likely be due to increased corruption, but not by a significant amount.

In line with this, the data presented in Table 3 shows that EXG and INFL have a significant positive impact on FDI, implying that if the Western Balkans countries as a single region have an increase in the exchange rate or/and an increase in the inflation rate, this will have a positive effect on FDI inflows. Considering that FDI inflows are one of the main elements that support the economic development of developing countries such as the countries of the Western Balkans, the data extracted and processed through SPSS shows that corruption harms the inflows of FDI, being one of the key indicators in restraining the growth and development of the respective countries, while the currency exchange rate and the inflation rate have a positive impact on FDI inflows.

Based on the results obtained so far, we can derive the equation for the built model of the effect of CPI, WBCR, EXG, and INFL on FDI for Western Balkan countries:

$$FDI = \beta_0 - 0.088\,CPI - 0.624\,WBCR + 0.165\,EXG + 0.236\,INFL + \varepsilon_j$$

For the purpose of estimating the regression equation, it is estimated that the stochastic error term of the model is zero. In coordination with this, based on the equation of the built model and based on the results so far, we can conclude that if EXG and INFL increase by one unit, FDI would increase by 0.165, namely 0.236, while if CPI and WBCR increase by one unit, FDI would decrease by 0.088, namely 0.624.

CONCLUSION

Even though some research has supported the theory that corruption helps to increase the flow of FDI inflows, corruption, apart from being a negative phenomenon and sanctioned by legal acts, shows a low level of morals, ethics, and regression in economic development. The multiple linear regression analysis results showed that corruption in the Western Balkans countries negatively impacts FDI inflows and thus inhibits growth and economic development, while the exchange rate and inflation rate positively impact FDI inflows. However, the results showed that corruption and other variables included in the model account for only 25.6% of the impact on FDI inflows in Western Balkan countries. These results found that EXG and INFL are directly proportional, while CPI and WBCR are inversely proportional.

In the short term, corruption can help underdeveloped countries improve their economic situation. However, in the long term, this phenomenon is extremely harmful to society and the economic development of each country. Therefore, the governments of the Western Balkans countries, as developing countries, must be committed and, through regional cooperation, develop harmonized policies with the European Union (EU) to combat corruption and informality, two widespread and extremely widespread challenging phenomena. This is because the reduction in corruption will directly impact the attraction of foreign investors and, as a result, the increase in FDI inflows.

No other potential elements are considered in this research besides the variables included in the model and may impact FDI inflows in the Western Balkans countries.

Therefore, we recommend future researchers look into the variables that significantly affect the attraction of FDI inflows, such as governance indicators like GDP, the opening of free trade, the size of the market, political stability, regulatory quality, the rule of law, accountability, government effectiveness, the balance of payments, FDI outflows, and other variables in their model in future studies. Future researchers can investigate the aspect of FDI inflows for this region by analyzing each country separately and researching the specific beneficiary sectors of FDI. A good opportunity is to analyze the region in terms of the period before and now during the pandemic crisis, considering the level of corruption according to official data. This is because FDI inflows have decreased globally in recent years, owing to the global pandemic Covid-19 and the continuously rising inflation rate, both of which have slowed economic growth and are influencing the corresponding growth to be negative. Due to the significance of FDI inflows, Western Balkans countries should seriously consider mutual collaboration and take action to control the pandemic and inflationary crises most efficiently. The governments of the Western Balkan countries should work to maintain the inflation rate in balance or stabilize the fluctuations of the exchange rate to prevent the negative effects of FDI inflows, as the rate of inflation and the exchange rate has a positive and statistically significant impact on FDI.

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