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EXAMINING THE EFFECTS OF FDI ON THE ECONOMIC GROWTH OF THE REPUBLIC OF SERBIA

Abstract: Foreign direct investment (FDI) represents an important source of capital, particularly for transition economies, as it stimulates investment activity, increases productivity, and contributes to economic growth, while strengthening macroeconomic stability and the openness of the economy. In this research, economic development will be monitored through the movement of gross domestic product (GDP), which represents an important indicator of economic activity and overall economic growth. However, the degree of impact of foreign direct investment on gross domestic products and economic growth is conditioned by various economic and institutional factors. The empirical research aims to examine whether and to what extent foreign direct investment inflows contribute to economic growth through increases in gross domestic product in the Republic of Serbia during the period from 2014 to 2024. The study will be based on secondary annual data obtained from the National Bank of Serbia and the Statistical Office of the Republic of Serbia. For the purposes of this research, the multiple linear regression method will be applied, enabling the identification of causal relationships as well as the estimation of economic impact. The results are expected to show a positive and statistically significant impact of foreign direct investment on the economic growth of the Republic of Serbia, confirming their importance as a mechanism for strengthening macroeconomic stability and long-term development. The results indicate a clear upward trend in foreign direct investment inflows, accompanied by overall growth in gross domestic product in Republic of Serbia. The analysis suggests a positive association between FDI inflows and economic growth, highlighting their importance as a factor contributing to macroeconomic development and long-term economic expansion.
Keywords: *foreign direct investment, gross domestic product, economic growth, the Republic of Serbia.*

1. INTRODUCTION

In the modern economy, foreign direct investments (FDI) represent one of the key instruments of connecting national economies with global flows of capital, production and trade. Their importance is reflected in the transfer of technologies, the creation of new jobs, the increase in export competitiveness and the acceleration of economic growth (Assamah & Yuan, 2024; Đurić et al., 2016). Therefore, many countries use FDI as a basic mechanism of economic modernization and integration into international value chains, thereby ensuring long-term stability and sustainable growth (Khan et al., 2025). The Republic of Serbia started this process late, due to political and economic sanctions during the 1990s, which delayed its integration into international capital flows (Ratkaj et al., 2020). It was only in the early 2000s that the more intensive inflow of FDI began, and from 2010 to the present, there has been a steady growth of investments in key sectors such as manufacturing, mining, construction and finance (Statistical Yearbook, 2025). Serbia stands out as one of the more successful countries in the region in terms of the volume of attracted FDI, which indicates an improvement in the investment climate and macroeconomic stability (Vujadinović & Marjanović, 2025). According to data from the National Bank of Serbia, in the last decade, Serbia achieved above-average results in attracting FDI compared to countries of similar size and level of development, ranking 45th in the world in terms of inflow value in 2023 (National Bank of Serbia, 2024).

This research aims to analyze the characteristics and dynamics of FDI inflows to Serbia and their impact on economic growth as, measured by increasing Gross Domestic Product (GDP). By analyzing absolute and relative indicators, the study explores how FDI has not only provided essential capital but has also driven the modernization of key sectors. This study covers the period from 2014 to 2024, as a decade of significant structural reforms and intensified efforts to attract foreign capital. The descriptive statistical method will be applied for the analysis of key economic indicators. The research is grounded in official secondary data obtained from the National Bank of Serbia (NBS) and the Statistical Office of the Republic of Serbia (SORS), ensuring a high degree of reliability and institutional relevance.

2. LITERATURE REVIEW

Foreign direct investment is essential to a nation's economic success, and each country strives to ensure the largest possible inflow of these investments (Liu et al., 2025; Marjanović et al., 2024). Because foreign direct investment can accelerate economic growth and development, countries are improving their economies to attract it (Ahmed & Ibrahim, 2019). As foreign direct investments have the potential to greatly boost a nation's economic growth, they can be quite significant. Their importance is demonstrated by their ability to support the development of competitiveness and comparative advantages (Domazet & Marjanović, 2026; Vujadinović & Marjanović, 2024). The long-run effect of FDI on growth is significantly positive in investment- and factor-driven economies (Yimer, 2023). The efforts of nations to improve the competitiveness of their institutional systems are closely linked to attracting foreign direct investments (Gülcü, 2024; Marjanović et al., 2022; Miković, 2020). An increase in FDI relative to GDP drives growth only when the host nation has adequate absorptive capacity, with trade openness above the threshold (Minh & Trinh, 2023). FDI stock and economic growth in Eurozone countries have a positive long-run cointegrating relationship, according to Pegkas's (2015) analysis of the relationship between FDI and economic development from 2002 to 2012.

Dorakh (2022) concludes that trade and FDI connectivity remain more global than regional after using a panel data approach for 39 countries from 2000 to 2020 to examine the connectivity among institutional and economic factors affecting FDI flows within Europe compared to those between European and non-European countries. Anwar et al. (2023) examined how GDP growth affected foreign direct investment (FDI) in ASEAN-5 nations between 2004 and 2019. The results showed that GDP growth significantly and positively affects FDI. According to Marjanović et al. (2025), the cost of doing business is the most significant factor in Serbia's economic environment for international investors. Foreign investors avoid unstable and dangerous nations, as reflected in the allocation of FDI inflows from lower-income economies to more stable, higher-income nations (Nguyen & Lee, 2021). The research results of Liang et al. (2023) show a positive relationship between FDI and economic growth. An increase in FDI inflow boosts a developing nation's economic growth. Since economic growth often provides host nations with a location advantage and increases company confidence, it is considered a favorable factor in attracting foreign direct investment (Ghazalian, 2023; Bermejo Carbonell & Werner, 2018; Domazet et al., 2025). Gherghina et al. (2019) studied the relationship between foreign direct investment inflows and economic growth, and their empirical results support a non-linear relationship between FDI and gross domestic product per capita. Over 60% of all foreign direct investment in Western Balkan countries between 2010 and 2019 went to Serbia, making it the most desirable place to invest, according to a study by Marjanović and Đukić (2020). Additionally, the results of the study by Vujadinović and Marjanović (2025), which examined greenfield investments between 2015 and 2023, indicate that the Republic of Serbia is the most desirable investment destination in the region and attracts the highest percentage of FDI.

3. DATA AND METHODOLOGY

This research is based on the analysis of secondary data obtained from relevant and reliable institutional sources, primarily the National Bank of Serbia (NBS) and the Statistical Office of the Republic of Serbia (SORS). The dataset covers the period from 2014 to 2024, which represents a decade characterized by significant economic reforms, increased openness to foreign capital, and intensified integration into global economic flows in Republic of Serbia.

The study focuses on three key macroeconomic indicators: foreign direct investment (FDI) inflows, real gross domestic product (GDP) growth, and GDP in current prices. FDI inflows are expressed in billions of euros, real GDP growth is presented in percentage terms, while GDP in current prices is measured in billions of dinars. In addition, sectoral data on FDI was used to identify the most attractive industries for foreign investors, including manufacturing, construction, mining, and financial and insurance activities. The methodological approach is primarily based on descriptive statistical analysis which enables a comprehensive understanding of the dynamics of the observed economic indicators. Graphical representations are used to illustrate trends and patterns, while tabular data provide a clearer overview of statistical relationships.

4. RESEARCH RESULTS

The results of the analysis provide a comprehensive overview of the trends and structural characteristics of foreign direct investment (FDI) inflows and economic growth in Republic of Serbia during the period 2014–2024. They highlight the dynamic relationship between increasing FDI inflows and the overall expansion of economic activity, as reflected in key economic indicators.

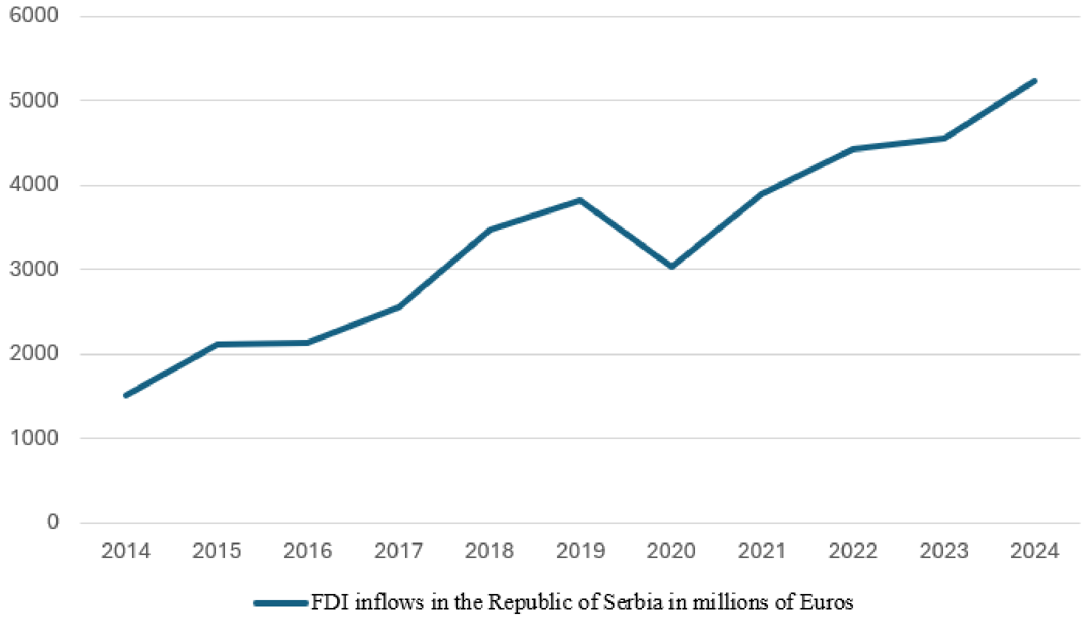

Figure 1: FDI inflows in the Republic of Serbia in millions of Euros
Source: Authors based on SORS

The figure1 shows the movement of the inflow of foreign direct investments (FDI) in the Republic of Serbia in the period from 2014 to 2024, expressed in millions of euros. Based on the data presented, a clear long-term upward trend can be observed, with certain short-term oscillations. In the initial year (2014), the inflow of FDI amounted to 1,500.5 million euros. During the next two years, a moderate growth of 2,126.9 million euros was recorded, which indicates the stabilization of the investment environment. More pronounced growth was recorded in 2017, 2018 and 2019, when inflows reached 3,815.3 million euros. In 2020, due to the global crisis, there was a decline, but already in 2021, there is a recovery, after which growth continues in 2022 (4,432.5 million euros) and 2023 (4,564.4 million euros). The highest value of the inflow of foreign direct investments was achieved in 2024 and amounted to EUR 5,230.9 million.

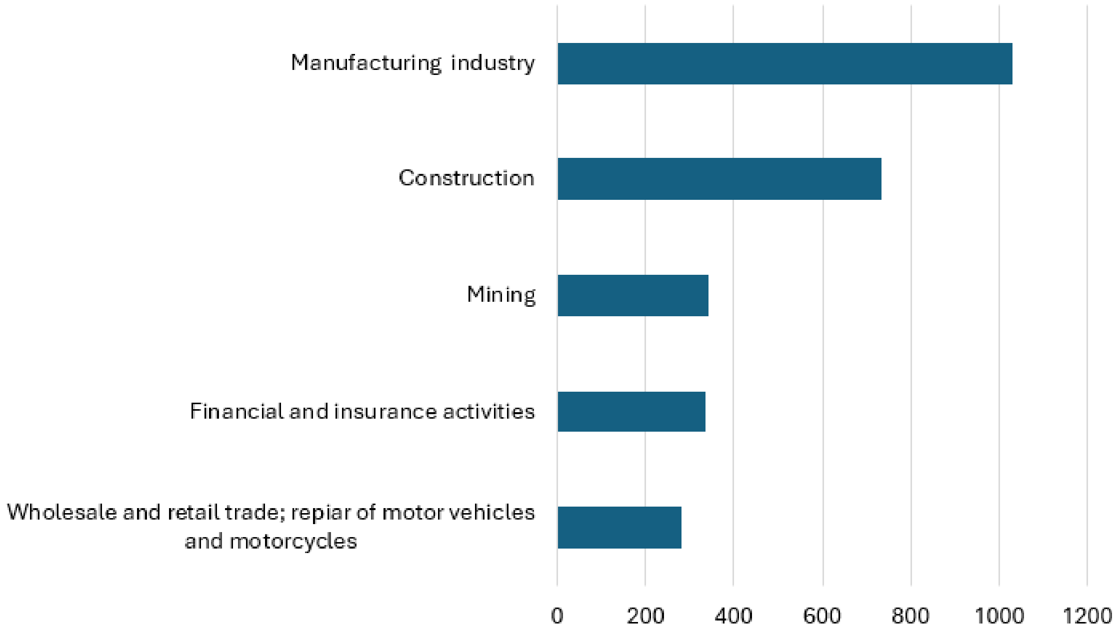

Figure 2: The top 5 sectors by average FDI inflows during 2014-2024
Source: Authors based on SORS

The graph 2 shows the five leading sectors according to the average inflow of foreign direct investments (FDI) in the Republic of Serbia in the period from 2014 to 2024.Based on the presented data, the processing industry takes the first place, which indicates its dominant importance in the structure of foreign investments. This sector represents a key pillar of investment attraction and plays a leading role in the country's industrial development. In second place is construction, with significantly lower but still significant average investments. This sector records stable interest from investors, due to the intensive development of infrastructure and urbanization. Mining sector and financial and insurance activities have approximately similar levels of average investments, but with slightly more pronounced oscillations in the observed period. Their importance is growing especially in recent years, which indicates the diversification of investment flows. In the last place is wholesale and retail trade and repair of motor vehicles and motorcycles, which indicates a relatively smaller, but still present importance of this sector in total investments.

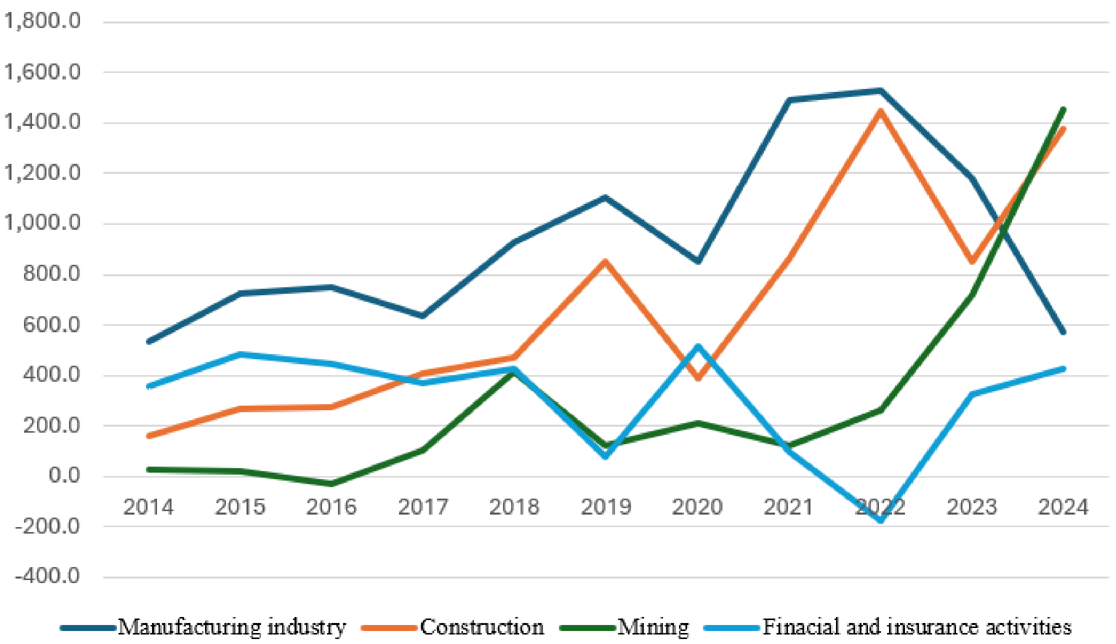

Figure 3: FDI inflows in Processing industry, Construction, Mining and Financial and insurance activities
Source: Authors based on SORS

Figure3 shows the movement of the inflow of foreign direct investments (FDI) by sector in the Republic of Serbia in the period from 2014 to 2024. The following sectors are covered: manufacturing, construction, mining and financial and insurance activities. In the observed period, the manufacturing industry recorded a continuously high level of investment and represented the leading sector in most of the analyzed intervals. After moderate growth from 2014 to 2017, there is a significant increase in investment during 2021 and 2022, when investments reach their highest values. This is followed by a slight decline until 2024. Construction is characterized by more pronounced oscillations. After a gradual growth from 2014 to 2019, there is a decline in 2020 due to the covid pandemic, then a strong recovery and a sharp growth peaking in 2022. In the initial years, mining records a low level of investment, but from 2021 there is sudden and continuous growth. This sector reaches its peak in 2024, making it also one of the most significant. Financial and insurance activities are characterized by pronounced oscillations. After growth until 2020, there is a sharp decline, with negative values recorded in 2022. In the following years, the sector is recovering but remains unstable compared to other sectors.

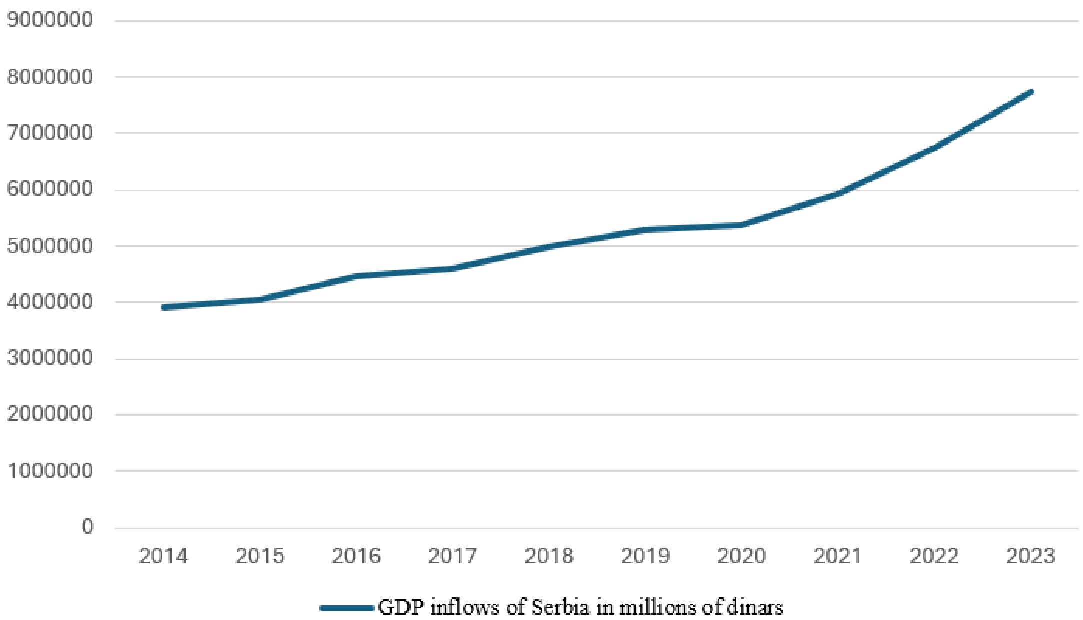

Figure 4: GDP inflows of Serbia in millions of dinars
Source: Authors based on SORS

The graph 4 shows the movement of gross domestic product (GDP) in the Republic of Serbia in the period from 2014 to 2023, expressed in millions of dinars.Based on the data presented, a continuous upward trend of GDP can be observed throughout the observed period. In 2014, the GDP was approximately 3.9 billion, after which it recorded gradual growth in the following years. In the period from 2015 to 2017, growth was moderate and stable, without significant oscillations.From 2018, there is a slightly more intense increase in GDP, which continues in 2019 and 2020, although a slight slowdown in growth can be observed in 2020. This is followed by a phase of accelerated growth - especially from 2021, when GDP begins to grow more significantly.The most pronounced increase was recorded in the last two years of the observed period. In 2022 and 2023, there was a sharp increase in GDP value, with 2023 reaching the highest level in the entire period.

Table 1: Descriptive statistics for FDI and GDP in the Republic of Serbia (2014-2024)

	FDI inflow (EUR bn)	Real GDP growth (%)	GDP current (EUR bn)
Mean	3.34	2.86	52.45
Meridian	3.46	3.00	48.11
Std.Daviation	1.15	2.71	15.58
Minimum	1.50	-1.80	37.01
Maximum	5.23	7.90	83.26
Skewness	0.18	0.50	0.88
Kurtosis	-1.17	0.10	-0.55

Source: Author's calculation based on NBS and SORS data.

This Table 1 shows the basic descriptive statistical indicators for the inflow of foreign direct investments (FDI), the real growth of the gross domestic product (GDP) and the level of GDP in current prices in the Republic of Serbia. First of all, the inflow of foreign direct investments (FDI) shows relative stability and continuity. The moderate standard deviation and small range of asymmetry indicate that there were no extreme oscillations, but a gradual movement with a slight upward trend. This suggests that the Serbia was a reliable and stable destination for foreign investors during the observed period. On the other hand, real GDP growth is much more variable. A high standard deviation, as well as the presence of a negative minimum value, indicate that at a certain point there was a decline in economic activity, which can be associated with external economic shocks or crises. Conversely, a high maximum value shows the economy's potential for strong recovery and accelerated growth. When it comes to GDP in current prices, there is a clear upward trend. The larger difference between the average and the median, as well as the positive asymmetry, indicate that higher values were recorded in the recent period, which confirms the long-term growth of the economy and the increase in overall economic activity.

5. CONCLUSION

The results of the analysis indicate that foreign direct investments have played a significant role in the economic development of Republic of Serbia during the period from 2014 to 2024. A clear upward trend in FDI inflows has been observed, despite the presence of short-term fluctuations, particularly during the global crisis in 2020. The temporary decline in that year reflects the sensitivity of investment flows to global economic disturbances. However, the relatively quick recovery and continued growth in the subsequent years highlight the resilience of the Serbian economy, as well as its increasing attractiveness to foreign investors. This suggests that macroeconomic stability, institutional improvements, and investment incentives have played an important role in maintaining investor confidence. Sectoral analysis shows that the manufacturing industry has been the dominant recipient of FDI, highlighting its importance as a driver of industrial development and export competitiveness. At the same time, increasing investments in mining, construction, and financial sectors indicate a gradual diversification of investment flows and a broader economic base. This diversification is particularly important for reducing dependence on a limited number of sectors and enhancing the overall resilience of the economy. The analysis of GDP trends further supports these findings. While real GDP growth exhibits certain fluctuations, reflecting sensitivity to external shocks, the overall positive average growth rate indicates steady economic expansion. In contrast, GDP in current prices shows a strong and continuous upward trend, confirming the long-term increase in economic activity. Descriptive statistical indicators suggest that FDI inflows are relatively stable compared to the more dynamic nature of economic growth. The moderate variability of FDI indicates a steady inflow of foreign capital, while the higher variability in GDP growth points to cyclical movements and sensitivity to broader economic conditions. Nevertheless, the presence of high maximum growth rates highlights the economy's capacity to achieve strong expansion during favorable periods, particularly following economic downturns. The findings confirm that FDI has been an important factor in supporting economic growth, structural transformation, and modernization of key sectors in Republic of Serbia. Although challenges remain, particularly in terms of growth stability, the overall trend indicates a positive development trajectory and strengthening integration into the global economy. Continued efforts to improve the investment climate, diversify the economic structure, and strengthen institutional capacity will be essential for maintaining this momentum and ensuring long-term integration into the global economy.

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