

INVESTMENT STIMULI

**INVESTMENT STIMULI IN THE
SLOVAK REPUBLIC**

**DANIELA PETRÍKOVÁ,
TATIANA SOROKOVÁ**

*Faculty of Economics,
Technical University of Kosice,
Slovak Republic*

KEYWORDS: Investment stimuli, effectiveness investment stimuli

ABSTRACT: The aim of this paper is to discern the specifics of the Slovak economy in the provision of investment stimuli. In the Slovak economy, providing investment stimuli as a tool to promote economic development was applied especially in the first half of the last decade. Aim of the research was accentuated under the dominance of positive and negative elements investment incentives. In addressing the issue where used theoretical background of selected authors. Used were mainly descriptive and comparative methods of scientific research work. Providing investment stimuli has its own genesis, it is therefore possible to monitor their impact on the Slovak economy both in positive and in negative direction. Investment stimuli were supported primarily to large foreign businesses. Supporting their establishment in the various regions of Slovakia were created not only jobs, but have also been established domestic network contracted as small and medium-sized enterprises, which subsequently multiplied positive processes in the economy. This issue therefore has its own place in the process of preparing entrepreneurs for starting new business.

<http://dx.doi.org/10.15208/pieb.2014.18>

Vol.14 (4), PP.152-159

Source: Petříková D., Soroková T., 2014. "Investment stimuli in the Slovak Republic", *Perspectives of Innovations, Economics & Business*, Vol.14(4), pp.152-159, <http://dx.doi.org/10.15208/pieb.2014.18>

Introduction

Stimuli are an instrument of economic policy, which use them to promote entrepreneurship, particularly in regions where it is necessary to support the business or in regions where it is necessary in order to create more jobs, which should improve the living of the population. Economists, professionals as well as entrepreneurs themselves have different views on the provision of investment stimuli. The existence of investment stimuli and the associated positive and negative consequences of their provision lead to the fact that the company should provide evaluation of various stimuli. To evaluate the effectiveness of investment stimuli should be treated on the one hand in general and on the other hand, it is also necessary to evaluate the individual impact of investment stimuli, because they were given at different points in time, under different circumstances and in different forms. When evaluating the issue of investment stimuli should also take a look on socio - psychological aspects of their provision.

Data and methods

This output is developed based on the theoretical background of authors Barro (1990), Bevan (2004), Glomm (1997), Pennings (2000), Barro (2009). The contribution will be used mainly

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corresponding email: [daniela\(dot\)petrikova\[at\]tuke\(dot\)sk](mailto:daniela(dot)petrikova[at]tuke(dot)sk)
postal address: Technical University of Kosice,
TU Košice, B. Nemcovej 32, 040 01 Košice, Slovak Republic

descriptive and comparative methods of scientific research work. The authors also used the survey results (Barometer, 2012) obtained from respondents' answers to the question: "What is the significance according to investment stimuli from the state?"

In this paper we have used secondary data from the Statistical Office of the Slovak Republic, the available data from the Ministry of Economy (MoE SR) and Institute of Economic and Social Studies (INESS).

When writing the paper we rely on descriptive methods and methods of analysis and synthesis. The main research method was the comparison, which aimed to compare the positive and negative consequences of their investment stimuli. We used analysis in tracking correlations between providing stimuli for investment and job creation, respectively, between the pursuits of their impact on the unemployment rate. Synthesis was used in drawing the consequences on the socio - psychological aspects of investment stimuli.

Assumptions / Hypothesis

Investment stimuli are oriented priorities to help less developed regions, so we assume that in the Slovak Republic will be more than half of the projects supported through investment stimuli based just on regions with higher unemployment rate than the national average. We assumed that respondents involved in the survey (Barometer, 2012) are significantly positively perceived importance of investment stimuli granted in the SR.

Results

Objective evaluation of the pros and cons of providing investment stimuli in the economy is the appropriate tool to raise awareness of their impact on the business environment for start-ups and can also provide a comprehensive picture of their provision in Slovakia (Table 1 in Appendix).

The most significant positive effects arising from the provision of investment stimuli is a positive impact on the creation of new jobs. The negative phenomena that come with investment stimuli includes bringing in particular that they are an opportunity costs for the company, which consists promoter not-performed investments, mainly of domestic business entities. As already mentioned, the views to provide investment stimuli are both positive and negative. In this context Trend magazine conducted a survey of views on the importance of investment stimuli from the government. Results showed that the perception of investment stimuli is to a significant extent perceived contradictory, since the highest score appeared in fear of worsening the competitive environment, which is important for the dynamics and quality of economic development potential.

Also common practice shows that the perception of investment stimuli is mainly in two dimensions, as confirmed by the above opinion survey.

I tend to the view that investment stimuli are not the ideal tool to stimulate the business environment. Their application in a globalized world, however, determined that unless the agreement of all the countries that they cease to provide will be very active element in the decision of investors about the location of their investments and the associated creation of new jobs. Efforts to give greater importance to quality business environment are just tunnel vision and lack of understanding how the globalization and transnational corporations works, which consider the business environment as necessary parameter of economic development and investment stimuli for motivating parameter. Stimuli are not a bad tool for influencing economic growth, but as a non-systemic solution couldn't be overstated. For the attractiveness of the economy of each country towards investors is significantly more important setting of business environment through the tax system, insurance payments, law enforcement, and overall entrepreneurial culture to which it is necessary to conduct business and continually educate.

Especially small and medium enterprises perceived negative investment stimuli for that they are mainly for large corporations and foreign entities, favouring one over many small entrepreneurs who do not get help and assistance of any kind reasonably perceived as harming the business environment. If the future entrepreneur has insight and knowledge gained in the course of education in level of business opportunities and, consequently, national prosperity will perceive these impulses as the right stimuli, so that they have a proportionately greater benefits in the form of the creation of sub- network and thus further employment growth (Kolářková, 2013).

The more people working, the much higher is consumption. The consumption higher, the state will receive higher income taxes, levies, fees and less load on the unemployed. Therefore, if the rules of investment support directed mainly to the development of employment, especially in less developed regions, this will help reduce differences between regions and also improve the living standard of the population's less developed regions.

"Stimulating and rigorously taken, the corrupting of foreign investors from doing business in our country, in my opinion is legal, although immoral. Even when ignoring human values must apply simple mathematics. Must be calculated first, if not already so bribes and humbly ask how much is actually spent in the aggregate per job, so bought the place. Whether the game is worth it. The fact that one is stimulated (they are from abroad and not others, because it is ours, Slovak entrepreneurs) is difficult to reasonably discuss. After all, business is characterized by the business not by preference of intruders - financial decoys as a legal form of bribery chosen at severe behaviour to their own businesses" Kassay (2012).

Based on this argument, education to business activities should be directed already during the first acquisition of knowledge, which can also be implemented through projects KEGA from Ministry of Education of Slovak Republic, same as the project MUPOZ from Economic faculty of the Technical University in Kosice. If the education in level of business environment will be multi effectiveness also will raise motivation and positive attitude to investment stimuli that are currently necessary to promote the business, including foreign investors, although worsen the business environment and deplete domestic entrepreneurs, but nevertheless are a good tool for creating jobs, all because stimuli are an active part of the fight to obtain foreign capital of competing neighbouring countries.

The selected responses and also in our opinion should be respected both positive and negative impacts already granted and currently granted investment stimuli. In the event that the government decide for the granting of investment stimuli and subsequently provide this incentive, it is possible to only think about whether did properly or not. Also time lag will show that used, respectively unused form of investment stimuli could give an answer it was, ultimately, government financing effective or not.

It can be stated that promoting entrepreneurship through investment stimuli has been since its inception set considerably with discrepancy between domestic and foreign investors and therefore in this direction over a longer period of time remain perception of adverse affecting the business environment by stimulating particular economic performance and not business environment itself in direction related to domestic entrepreneurs. Binding of providing investment stimuli only on job creation is therefore questionable as well and also the government is realizing changes of current legislation. With efficiency from May 2013 should amendment of act no. 561/2007 Z.z. about investment aid introduce, in addition to a number of minor adjustments, necessity to create new jobs at least 15% of the existing number and not less than 40, lower the minimum value of the acquired fixed assets from €7 million to €5 million and districts with unemployment higher by 50% or more than the national average from €3.5 million to €3 million. The amendment should tighten the conditions for technology centres, which must be at least 70% of employees with higher education instead of the original 30%.

The Table 2 (Appendix) shows the stimuli granted for the period 2002-2012, with reference to the price of the cost needed to create one job.

As can be seen from the data, a total of 128 stimuli were granted totalling nearly €1.4 billion with a total planned number of jobs created in the volume 45.346. The average cost of creating one job were calculated on the amount of €30,504. In August 2013 were approved investment stimuli for other four companies totalling €13.55 million.

Negative perception of investment stimuli is also following their allocation. Their provision should be linked to the lack of entrepreneurial activity in certain regions and the associated unemployment. From the data the MoE SR, however, that this condition has been complied only partially, as the years 2002-2012 were allocated to the allocation of stimuli for districts with below-average unemployment rates compared to districts with above-average unemployment as shown in table. This negative distribution government tried to adjust based on the amendment of the Act of 2007, but the reality remains unchanged (Tables 3-5 in Appendix). Types of investment stimuli for the last 10 years are shown in Figure 2 (Appendix) Hruška (2013).

The above data confirm that investment stimuli in Slovakia fail to meet the primary objective of reducing unemployment in regions with above-average unemployment.

Conclusion

Investment stimuli provided to stimulate business activities and job creation have both positive and negative impacts on the economy, it is therefore necessary to assess their effectiveness on a case by case basis and often to their suitability is not relevant provision return, but other factors.

Investment stimuli on the one hand help in the short term to address the negative situation in terms of employment, but they also distort the market environment. We are an appropriate instrument to stimulate the business environment in less developed regions, where their treatment improves quality of life. State policy in this area should be clear, consistent, and should apply equally to foreign and domestic investors for.

Provision of investment stimuli is considered one of the elements that distort the business environment, but a significant part of business is the opinion that more appropriate instrument of the reduction will be tax wedge. So long as the conditions would operate nationwide and among other things, would favourably affect several aspects of the business environment. Stimuli should be provided primarily in the areas, respectively to regions characterized by high unemployment. Slovakia reality, however, is that most of the stimuli granted flowed to developed regions where lowering the unemployment rate was not so urgent problem.

Prerequisite saturating regions with higher unemployment rate than the national average, a project supported by investment incentives was based on data from the Ministry of Economy (MoE SR) lower than we expected. In addition, it is necessary to highlight the fact that while the amount of funds that were provided to the investment projects was significantly lower compared to the amount of funding provided for projects directed to regions with lower unemployment rate than was average (Tables 3-4, in Appendix). Based on the Figure 1, we note that 50% of Respondents rated the importance of the positive contribution of investment incentives and 46% of respondents had a negative opinion, the most pointed out that negatively affected the development of the business environment.

Stimuli are state aid, which is prohibited in the EU, precisely because these are harmful to the competitive environment. In order to support the development of European regions with a lower standard of living, however, is an exception to this general prohibition, which applies to most of the regions of Eastern Europe, including Slovakia. Stimuli are in this sense a part of

competitive bidding for foreign investors. Their provision, however, should be targeted to Slovak businesses.

Acknowledgment

The paper was prepared within project “creation of multimedia classroom to support distance forms of education in key competencies with emphasis on entrepreneurial skills”. Project No. 35TUKE-4/2012.

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Appendix

TABLE 1. POSITIVE AND NEGATIVE ASPECTS OF THE PROVISION OF INVESTMENT STIMULI

Positive aspects of the provision of investment stimuli	Negative aspects of the provision of investment stimuli
Attraction of new foreign investors	Distortion of competition resulting from the provision of stimuli
Sharing of knowledge and information between local and foreign investors	Damage to the domestic business environment
Creating new jobs	Orientation of government to foreign investors
Incentive effect required the use of new technologies	"Stealing" highly qualified staff
Increase of revenue in the form of taxes and duties	Accumulation of negative consequences upon departure of the foreign investor from the country
Reduction in unemployment benefit	Stimuli do not eliminate market failure, they only compensate it
Assistance in the application of science and research	Stimuli are not directly linked to convince investors and is not effectively considered an incentive effect
Attraction of new foreign investors	Tendency to allocate investment aid under the dominating sectors and regions
	Distortion of competition resulting from the provision of stimuli

Source: Author's own processing based on data available at Vlachynský (2013) and Kučera et al. (2010).

TABLE 2. OVERVIEW STIMULI 2002 – 2012

Year	Number of stimuli	Amount of stimuli	Planned amount of created jobs	Cost per 1 created job
2002	1	12 746 465	582	21901
2003	1	166 018 388	3 500	47 434
2004	18	313 402 342	8 880	35 293
2005	0	0	0	0
2006	48	357 887 436	15 214	23 524
2007	16	190 038 092	6 113	31088
2008	5	42 667 673	2 199	19 403
2009	8	75 270 583	2 976	25 293
2010	11	39 067 024	1350	28 939
2011	10	64 930 195	2 120	30 627
2012	10	121 191498	2 412	50 245

Source: Vlachynský (2013).

TABLE 3. ROUTING OF STIMULI BY THE UNEMPLOYMENT RATE FROM 2002 TO 2012

	Districts with below-average unemployment	Districts with above-average unemployment
Number of stimuli	67	61
Volume stimuli	€951 371 995	€431 847 701
Planned amount of created jobs	29 339	16 007

Source: MoE SR 2002-2012.

TABLE 4. ROUTING OF STIMULI BY THE UNEMPLOYMENT RATE, 8.1. 2007-31.12. 2012

	Districts with below-average unemployment	Districts with above-average unemployment
Number of stimuli	32	27
Volume stimuli	€289 488 017	€168 777 048
Planned amount of created jobs	8 307	7 663

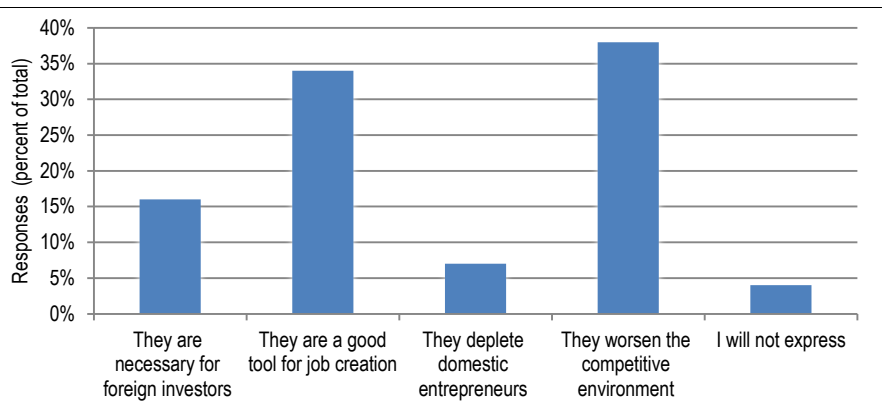
Source: MoE SR 2002-2012.

TABLE 5. PERCENTAGE OF INVESTMENT STIMULI IN INDIVIDUAL REGIONS OF SLOVAKIA FOR THE PERIOD 2002-2012

District	Average share of unemployment in different regions on an annual unemployment rate for the period 2002-2011 (%)	Percentage of investment stimuli in individual regions of Slovakia for the period 2002 - 2012 (%)
BA	5.8	4.54
TT	10.5	24.74
TN	8.1	11.43
NR	15.9	11.20
ZN	13.6	24.38
BB	21.4	6.00
PR	18.2	2.81
KO	20.0	13.80

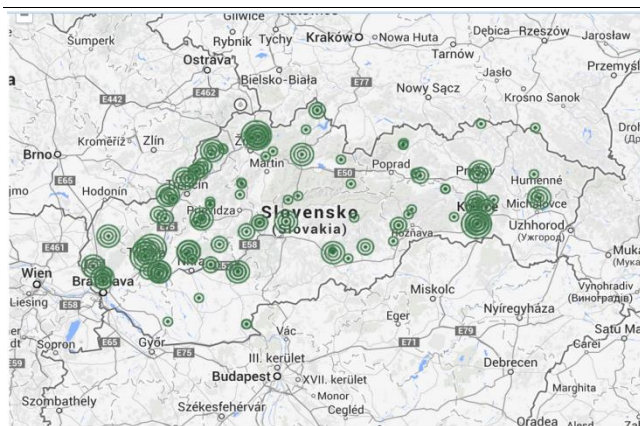
Source: Own processing according to the data Korytářová (2013).

FIGURE 1. WHAT IS THE IMPORTANCE OF INVESTMENT STIMULI FROM THE STATE?



Source: Study based on data contained in the Ekonomika: Barometer (2012).

FIGURE 2. THE GOVERNMENT IS CHANGING THE RULES FOR STIMULI.
 LOOK WHO GOT STIMULUS IN 10 YEARS RECEIVED



- Map shows "report businesses that have been approved for regional aid" (MoE SR)

- Map shows firms which aid has been approved between 2002-2012 (map not shown earlier investments)

- Companies are indicated on the map by location of operation, not by residence

Source: Hruška (2013).