

## OPPORTUNITIES FOR INVESTORS IN SLOVAK REPUBLIC PRÍLEŽITOSTI PRE INVESTOROV V SR

**Ing. Vojtech Ferencz**  
**Doc. Ing. Ľubomír Jahnátek, CSc.**  
**Ing. Peter Žiga**

Ministerstvo hospodárstva Slovenskej republiky  
[ferencz@economy.gov.sk](mailto:ferencz@economy.gov.sk)

### Abstract

The article deals about strategy of the Slovak Government regarding its further development, and about primary forms of governmental support with regard to investments, development of human resources, research, development and innovations.

**Key words:** investment support, innovation stimuli, development of competitiveness,

### Abstrakt

V príspevku je charakterizovaný strategický prístup vlády SR k problematike ďalšieho rozvoja investícií, stimulov a inovácií.

**Kľúčové slová:** podpora investícií, inovačné stimuly, rozvoj konkurencie schopnosti

### INTRODUCTION

Many significant investors from Europe, Asia, America and Australia are running their businesses in Slovakia.

The fact that Slovakia has become an attractive country for investors is founded by a series of reasons. The most important of them are a long-dated high economic growth, political stability, qualified labor, an advantageous relation between labor productivity and wages, and a position amid Europe.

Slovakia has obtained the A-rating from the Standard & Poor's rating agency; when evaluating the entrepreneurial attractiveness, according to Economist Intelligence Unit, Slovakia takes the 24<sup>th</sup> place in the world (2008).

### STRATEGY OF THE SLOVAK GOVERNMENT REGARDING FURTHER DEVELOPMENT OF COMPETITIVENESS

The government of the SR has lately adopted a series of strategic plans regarding the knowledge economy, innovations, competitiveness and economic growth, informational society, and the national strategic reference framework up to 2013.

The total strong and weak sides, opportunities and risks are expressed by the SWOT analysis:

- *Strong sides of SR* come out especially from the long-term traditions of the machine engineering, from experience acquired during the operation of the world class VW Slovakia Company in our industry, the long-term establishment of supplying networks and cooperation between public and private sector.
- *The weak sides* include a lack of qualified labor force in some professions, weak innovation capability, absenting regional innovation and development strategies in view of potentials of automotive industry, unfinished industrial parks, highways in process of construction, infrastructure in process of construction, and clear interest of investors in the Greenfield projects only.
- *Opportunities* include especially the existence of new, eastern markets, a potential of existing markets in the surrounding countries (Poland, Hungary, and Bulgaria), possibility to involve the Slovak science and research more into solving problems of the world automotive industry, a potential of further development of machine engineering and electro-technical and chemical production.
- *Threats* include a growing competition on new markets, reinvestments of big car manufacturers and their decisions on global production transfers, the Asian and East-European car manufacturers with low-priced labor force; insufficient development of infrastructure, regional capacities, educational and training system, which fall behind the needs of the automotive industry in the SR.

Fundamental points of transformation strategy to the knowledge economy are oriented towards (tab.1):

- Entrepreneurial environment;
- Science, research & development, innovations;
- Human resources education and development;
- Company informatization.

Tab. 1 Strategy for Economic Development

Domain	Characteristics
<b>Business Environment</b>	Quality law enforcement Quality physical infrastructure and services in the network industries Public institutions as a partner rather than a burden Effective access to capital market for all enterprises
<b>Science, R&amp;D, Innovations</b>	Training and support of outstanding scientists Research comparable with international standards and

	appropriately interconnected with the business sector Effective public support of business activities aimed at research and innovations
<b>Information Society</b>	Information literacy Effective e- government and modern on-line public services Wide internet accessibility
<b>Education and employment</b>	Modern educational policy Higher flexibility of educational programs Achieving a high employment rate Coping with demographic changes

The automotive industry is a significant implementer of such strategy. The specific features are as follows:

- Orientation towards a higher value added through production sophistication and high technologies;
- Development of engineering, research & development and other knowledge-intensive services;
- Competitiveness based upon quality, productivity and innovations in contrast to low-cost countries;
- Investment orientations to regions with higher unemployment rate;
- Respecting environmental aspects.

A dynamic pace of industrial growth, in the automotive in particular, has been possible thanks to elaborate, conceptual measures adopted and implemented by the Slovak Government (the economic stimuli, entrepreneurial environment, infrastructure, education, etc.).

The focus of the Slovak industrial policy:

1. The synergic development of production and services – Every workplace in production is linked with two and more workplaces in services.
2. Transformation from the resource-intensive to the knowledge - Intensive economy to compete with low labor cost countries.
3. A new approach requires innovations – The traditional industrial structure based on three pillars: “Soil, Labor, Capital“ shall be transferred to the “knowledge and capital” - based innovation production.
4. The competitive research and development based on multiplication factors – The knowledge-oriented economy requires new approach to the knowledge and innovation generation, the educational and training method innovation, establishment of quick-applicable research, technological

development and innovations, and development of appropriate infrastructure.

#### INVESTMENT SUPPORT AND STIMULI

Slovakia has a new Act No. 561/2007 Coll Of L. on Investment Support in effect since 1 January 2008. Changes, when compared to the previous one, do not deteriorate stimuli for investors, but make them more transparent and strengthen the investors' orientation towards innovativeness and less-developed regions. The fundamental points of the new Act include:

- It will be possible to grant an investment support to support new machinery and technological units;
- The general conditions for industrial production, technological centers, centers of strategic services, are differentiated;
- The long-term tangible and intangible assets only shall be considered the qualified costs;
- Fulfillment of the investment support stimulation effect –the intention to grant the investment support shall be acknowledged prior to the investment implementation;
- The simplification of the investment project review process, elimination of excessive bureaucratic load of investors;
- Differentiation of individual forms of investment support by the sector and region, with applied principle of higher degree of support to projects showing higher degree of sophistication and value added in less-developed regions.

The investment support can have a form of:

- A grant to acquire long-term tangible and intangible assets;
- The income tax relief;
- An allowance to new jobs created;
- Transfer or exchange of intangible assets for the price lower as is the usual value of assets.

The investment support recipient shall:

- Keep the long-term assets that the investment support has been granted to, in the height of the investment support drawn, for over 5 taxation periods at least;
- Keep a number of new-created jobs for at least 5 years;
- Fulfill conditions for having the investment support granted within three calendar years;
- Implement the investment project the way that 50 % at least of the value of qualified costs is financed by own sources or via external funding.

Conditions in individual areas are as follows:

1. Industrial Production

- a) New plant founding, the existing plant expansion, production diversification, or fundamental change in production program;
- b) Procurement of new production and technological equipment in the value of 60 % at least of the total value of the long-term tangible and intangible assets procured;
- c) Procurement of the long-term tangible and intangible assets:
  - In the sum of at least 24 million of € in the region with lower unemployment rate;
  - If the unemployment rate is above average - 12 million of €;
  - If the unemployment rate is higher by more than 50 % minimum as the average one in Slovakia - 6 million of €KK.
- d) Production, activities, processes, constructions or manufacturing and technological facilities meeting conditions under special regulations regarding environmental protection;
- e) Reaching a share of at least 80 % of the volume turnover coming from business activities defined in the investment project, in the total turnover showed by the investment support recipient.

2. Technological Centers (e.g. a center returning improvement, change in products, production processes, technologies...)

- a) Establishment of a new technological center, or expansion of the existing one;
- b) Acquirement of the long-term tangible and intangible asses in the sum of at least 1,2 million of €;
- c) 60 % of the total number of employees at least shall have academic degree.

3. Strategic Services Centers (e.g. centers for IT program development, customer support centers – accounting, financial, headquarters of multinational companies)

- a) Establishment of a new strategic services center, or expansion of the existing one;
- b) Acquirement of the long-term tangible and intangible asses in the sum of at least 1 million of €;
- c) 30 % of the total number of employees at least shall have academic degree.

4. Tourism industry (the setting-up of a new complex tourism centre, or the extension of an existing complex with new services). The investment plan must be:

- In the sum of at least 15 million of € in the region with lower unemployment rate;

- If the unemployment rate is above average – 7,5 million of €;
- If the unemployment rate is higher by more than 50 % minimum as the average one in Slovakia - 3 million of €.

**INNOVATION SUPPORT**

Within EU, Slovakia is being low-assessed in terms of innovation level. It falls behind the developed countries especially in view of investments to research and development and high-technology implementation.

The governmental measures do treat this issue. The important supporting instruments are offered with the innovation strategy of the Slovak Government up to 2013.

The innovation strategy priorities are following:

Priority #1: High-Quality Infrastructure and Effective Innovation Development System

1. Financial support for innovation center foundation;
2. Establish an information portal oriented towards innovativeness support in the business sphere;
3. Adopt quality legislation for innovation development, support and evaluation;
4. Introduce regular assessment upon innovative environment development indices;
5. Establish the implementation agency about to support and develop innovations.

Priority #2: Quality Human Resources

1. Support communication instruments oriented towards innovativeness promotion;
2. Support the growth in the human capital quality by funding the educational activities, mobility and knowledge transfer.

Priority #3: Effective Instruments for Innovations

1. Innovations and technological transfers;
2. Support common services for entrepreneurs;
3. Support innovative activities in plants.

To support innovations, the significant operational programs have been approved:

- Competitiveness and economic growth;
- Research and development;
- Employment and social inclusion.

**National Innovation System**

Ensuring the innovation policy implementation, support of the innovation processes in regions and transition to knowledge society are treated as part of the governmental program documents to the projects of integrated innovation system, the instruments in the Slovak regions (fig. 1). The height of funds allocated to the years 2008-2013 makes 350 million of EUR.

Regional innovation centers	<ul style="list-style-type: none"> <li>▶ Scientific–technical parks</li> <li>▶ Technological centers</li> <li>▶ Incubators</li> </ul>
Technological platforms	
Entrepreneurial Clusters	
Informatization	<ul style="list-style-type: none"> <li>▶ The Application Services Center</li> <li>▶ E- trade</li> <li>▶ ITK Training Center</li> <li>▶ Regional innovation portal</li> </ul>
Regional knowledge base	<ul style="list-style-type: none"> <li>▶ R&amp;D Competency Centers</li> <li>▶ Centers for transfer</li> <li>▶ Partnerships between universities, plants and research</li> </ul>
Human Resources	<ul style="list-style-type: none"> <li>▶ Educational and Advisory Centers</li> </ul>
Innovation funding	<ul style="list-style-type: none"> <li>▶ Micro-loans, grants</li> <li>▶ Start- up Capital Fund</li> <li>▶ Development Capital Fund</li> </ul>

Fig. 1 National Innovation System

It is necessary to establish efficient capacities in order to treat innovation activities in the entrepreneurial sector, and to support the cooperation within the production sphere, especially between small and mid-sized plants and research and development organizations, universities and colleges.

The suitable material-technical equipment needs to be provided for innovative entrepreneurship; the access to information and to rendering services as to innovations needs to be improved.

#### Human Resources Development Support

The competitive advantage of qualified labor force with the favorable 'labor productivity vs. labor costs' ratio will sustain Slovakia on a long-term basis. The labor productivity is growing faster as costs. Despite a systematic drop in the unemployment rate, there is a sufficiency of employees for further investments, especially in the Eastern, Central and Southern Slovakia.

The Slovak Government supports the human resources development as to the quality side:

- Educational system restructuring, vocational school system, re-qualifications, universities, life-long education;
- Schools linking with plants;
- Labor force mobility;
- Supporting arrival of deficit profession employees from abroad.

The labor potential also includes a return of employees working abroad. Mostly, it concerns young people, who, once acquiring skills, want to come back to Slovakia.

#### Regions Supported for Investments

Investments are welcome in every region of Slovakia. The social factors, the labor force resources, and infrastructure, however, have caused that regions with the highest need for investments have been identified. According to analytical studies, the above-average unemployment rate by 2010 shall be in the region of Banská Bystrica, Prešov and Košice.

#### SUMMARY

The increase in competitiveness in a subsequent period will require orientation to products with the higher value added, application of up-to-date technologies and development of knowledge-intensive services. The development trend resides in encouraging innovations, which will become a pillar for the economic growth strategy and new jobs building. It will result in:

- Competitiveness – the main principle of industrial policy in SR and EU;
- Integrated approach to environment;
- Better regulation;
- Availability of new vehicles to a wide group of customers;
- Market globalization and development.

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