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INVESTMENT ATTRACTIVENESS OF SLOVAK REPUBLIC AND ITS DETERMINANTS

Abstract. This paper deals with the issues of Slovakia's investment attractiveness determinants, development of which is conditioned by the foreign investors decisions about localization of their foreign direct investments (further FDI). Conditions of such determinants directly influences the total development of economy, expresses the ability to create better conditions for the foreign investors and to increase competitiveness. In the article, we specify these determinants, indicate their development and compare the position of Slovakia in the competition with the other V4 countries. The main determinants include political and macroeconomic stability, high quality of business environment, labour force, developed infrastructure, tax system and investment stimuli. It is concluded that Slovakia has overcome 2009 crisis conditions and shows positive macroeconomic dynamics in the V4 region, though some FDI determinants need further improvement.
Keywords: investment attractiveness; political environment; macroeconomic stability; quality of business environment; labour force; infrastructure; tax system; investment incentives.
JEL Classification: E22, E24, F30

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ОСНОВНЫЕ ДЕТЕРМИНАНТЫ ИНВЕСТИЦИОННОЙ ПРИВЛЕКАТЕЛЬНОСТИ В СЛОВАЦКОЙ РЕСПУБЛИКЕ
Аннотация. В статье рассмотрены факторы инвестиционной привлекательности Словакии, от которых зависит решение иностранных инвесторов о локализации прямых иностранных инвестиций (ПИИ). Показано, что основные детерминанты инвестиционной привлекательности оказывают непосредственное влияние на развитие национальной экономики и повышение ее конкурентоспособности, создание более благоприятных условий для иностранных инвесторов. Автором проведен сравнительный анализ современного состояния очерченных детерминант в Словакии и других странах Вышеградской группы, предложены пути дальнейшего развития факторов инвестиционной привлекательности в Словакии для повышения ее конкурентных позиций на рынках ПИИ.
Ключевые слова: инвестиционная привлекательность, политическое положение, макроэкономическая стабильность, качество бизнес-среды, рабочая сила, инфраструктура, налоговая система, инвестиционные стимулы.

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ОСНОВНІ ДЕТЕРМІНАНТИ ІНВЕСТИЦІЙНОЇ ПРИВАБЛИВОСТІ У СЛОВАЦЬКІЙ РЕСПУБЛІЦІ
Анотація. У статті розглянуто фактори інвестиційної привабливості Словаччини, від яких залежить рішення іноземних інвесторів про локалізацію прямих іноземних інвестицій (ПІІ). Показано, що основні детермінанти інвестиційної привабливості безпосередньо впливають на розвиток національної економіки і підвищення її конкурентоспроможності, створення сприятливіших умов для іноземних інвесторів. Автором проведено порівняльний аналіз сучасного стану окреслених детермінант у Словаччині та інших країнах Вишеградської групи, запропоновано шляхи подальшого розвитку факторів інвестиційної привабливості у Словаччині для підвищення її конкурентних позицій на ринках ПІІ.
Ключові слова: інвестиційна привабливість, політичне положення, макроекономічна стабільність, якість бізнес-середовища, робоча сила, інфраструктура, податкова система, інвестиційні стимули.

Introduction. The main endeavour of Slovakia similarly to other countries in the sphere of economic policy is support of restructuration and competitiveness of economy. The shortcoming often lies in the undersized state of economies, where the inflow of foreign capital is of great importance. As there are many investment opportunities available for every foreign investor, the effort to improve the determinants of investment attractiveness to promote the country is increasing. The determinants mostly mentioned are the political environment, macroeconomic stability, quality of business environment, labour force, infrastructure, and tax system and investment stimuli. Their improvement or deterioration has direct impact on behaviour of investors and the change in the inflow of FDI, which increase the total level of investments, total production potential and are a signal about the reliability of economy.

Brief Literature Review. The issue of investment attractiveness determinants, which is very actual at present, is being dealt with in numerous publications of Slovak and foreign authors. The attention of authors is paid to individual determinants and their influence upon the development of economy, the motivation of investors, creating economic and political conditions in the hosting country [1; 6; 5; 19]. Theoretical background of investigating the investment attractiveness has been created by the theories of FDI, the most comprehensive of which is J. H. Dunning's (1979, 2001) eclectic theory based on three categories of factors, which determine decision making by the investors. It is a known as OLI paradigm and the motives, which determine investment decision [4; 5]. The importance of several determinants of investment attractiveness was stressed by further authors, such as A. Bevan (2004a, 2004b), S. Estrin (2004a, 2004b) and K. Meyer (2004), who divided them into two basic groups of political and economic factors and distinguished the factors influencing the hosting and domestic economies [1; 2]. As for the Slovak authors, we must mention T. Dudas (2005a, 2005b, 2010), S. Ferencikova (2005) and K. Belanova (2014) ho analyze the determinants and point at their importance from the position of FDI access [3; 6; 7; 8; 11; 16]. S. Svecova (2012) shows the importance of labour force and the task of education [15], then the authors M. Fabus (2010, 2012) and M. Kohut'ar (2010) [10; 11] contribute to stronger competition between economies for FDI, which also means higher activity risk in the economy [13].

The purpose of the article is to identify important determinants influencing investment attractiveness of Slovakia, analyse the present situation and development and specify the priority of determinants with regard to requirements of foreign investors. Based on research of individual determinants in the Slovak Republic (further SR), to show the perspectives of economy development and compare their state and advancement with the other V4 countries.

Definition of investment attractiveness determinants

When analysing the investment environment, it is appropriate to compare the general categories which, according to more studies, may include the state of political environment, macroeconomic stability, quality of business environment, labour force, infrastructure, tax system and investment stimuli.

FDI belong to the most important factors of economic growth and condition development in the economy as well as in individual regions. Without external capital resources, long-term sustainable economic growth is not possible. Thus, the importance of determinants influencing the investment attractiveness becomes the most important fact in the SR, because they directly affect the behaviour of investors in selecting the locality for FDI. Let us have a look at development of single determinants.

The determinant the ***state of political environment*** belongs to the important ones. In a rocking political situation, rise of civil unrest, wars, strikes and total instability, there is a higher risk of investment and often withdrawal of a foreign investor. According to the most authors, this determinant includes political stability, the state of legal environment, bureaucratic procedures, extent of corruption and the laws related to FDI.

Political stability means a functioning parliamentary democracy and human rights and freedoms preserving. The *state of legal environment* means stability in forming an attractive business environment, existence of a system of laws and its preserving, enforcement of law and functioning of courts. Another factor is *bureaucratic procedures,* i.e. speed and quality of work at the administrative offices, financial and time difficulty in establishing and liquidating a business subject and alike. As for the evaluation within the EU, the V4 countries rank is the worst. E.g. in Poland a prospective entrepreneur takes 10 acts and 3 days to establish business. In Hungary it is 6 acts and 52 days, in the Czech Republic (further CzR) 10 acts and 88 days and in SR it is 9 acts and 52 days (the OECD average is 6 acts and 25 days).

The *level of corruption* is understood as one of the most serious social problems and is measured by the *Index of perception of corruption.*[1] According to the world scale, SR ranked the 62nd out of 176 evaluated countries, which is the worst ranking of the V4 countries; Poland ranked the best (41), then Hungary (46) and the CzR (54).

The laws on FDI are important from the point opportunity for foreign investors to gain majority in the ownership and possible repatriation risk in the hosting countries. At present, almost all countries (including the SR) have this sphere legally provided and there is no great difference between the countries.

The determinant ***macro-economic stability*** includes more factors of economic performance, stability and social development. We monitor their development in the years 2010-2012 (there are no complex data for the year 2013). After passing over the manifestation of the global recession, the situation in the SR was gradually improving, but in the year 2012 there was a partial stagnation. In spite of that, in 2012 we belonged to the economies with relatively better indicators and there was only partial slowdown of GDP which did not reach negative values (see Table 1).

When comparing the development of real GDP in p.p. within the V4 countries, the SR reached the best results, there was a similar development in Poland and the CzR, Hungary reached the lowest level. In the year 2010 in SR GDP in p.p. of the preceding year expressed in absolute numbers reached the level of 65,573.3 million EURO in the year 2011 it reached the level of 67,862.9 million EURO (half definite data) and in the year 2012 it was 70,216.6 million EURO (preliminary data). The index of GDP per head in the parity of purchasing power (PPP) is expressed to the average of the EU28=100. Out of the V4 the Czech Republic was the best, but it did not reach the average of the EU28 either, and in each year of the monitored period it did not reach the value of 81. *The Balance of Payments (BP) current account* in the monitored period was gradually improving, but in spite of that, it reached the negative values in the SR, the CzR, as well as in Poland. Only Hungary reached positive balance.

Inflation according to HICP (in %) in the SR in the monitored period was at a low level with the exception of the year 2011 when it slightly rose to 4.1%, then it was gradually falling, but not to the deflation levels. In other V4 countries, there was also a relatively low inflation. When evaluating the level of *unemployment,* the SR reached the worst results in the V4 by more than 4%. After partial decreasing of the rate in the year 2011 to 13.7%, in the year 2012 it started to rise to 14.0%.

Tab. 1: **The chosen indicators of economic performance in the V4 countries in 2010-2013**

Indicator	measure unit	2010	2011	2012	2013*
The Slovak Republic					
Real GDP (year to year change) in p.p.	%	4,4	3,0	1,8	
GDP per head in PKS EU28=100	Index	74	75	76	
Current account balance	% GDP	-4,2	-3,4	-1,7	
Unit costs of labour (2005=100)	Index	111,8	112,7	113,8	
Average monthly wages	EUR	769	786	805	
Productivity of labour (year to year change)	%	6,0	1,2	1,7	
Inflation rate (HICP)	%	0,7	4,1	3,7	1,5
Unemployment rate	%	14,5	13,7	14,0	14,2
The Czech Republic					
Real GDP (year to year change) in p.p.					
GDP per head in PKS EU28=100	Index	81	81	81	
Current account balance	% GDP	-2,8	-3,0	-3,0	
Unit costs of labour (2005=100)	Index	108,5	109,0	113,1	
Average monthly wages	EUR	875	889	917	
Productivity of labour (year to year change)	%	3,5	1,9	-1,4	
Inflation rate (HICP)	%	1,2	2,1	3,5	1,4
Unemployment rate	%	7,3	6,7	7,0	7,0
Hungary					
Real GDP (year to year change) in p.p.	%	1,1	1,6	-1,7	
GDP per head in PKS EU28=100	Index	66	67	67	
Current account balance	% GDP	-2,4	0,1	0,6	
Unit costs of labour (2005=100)	Index	115,6	118,3	121,4	
Average monthly wages	EUR	657	693	740	
Productivity of labour (year to year change)	%	0,2	1,3	-1,8	
Inflation rate (HICP)	%	4,7	3,9	5,7	1,7
Unemployment rate	%	11,2	10,9	10,9	10,2
Poland					
Real GDP (year to year change) in p.p.	%	3,9	4,5	1,9	
GDP per head in PKS EU28=100	Index	63	65	67	
Current account balance	% GDP	-5,2	-4,7	-4,6	
Unit costs of labour (2005=100)	Index	113,0	114,3	116,1	
Average monthly wages	EUR	812	862	852	
Productivity of labour (year to year change)	%	6,7	3,9	1,8	
Inflation rate (HICP)	%	2,7	3,9	3,7	0,8
Unemployment rate		9,7	9,7	10,1	10,3

Note. *The data only with the available indicators; Real product p.p. (permanent prices).
Source: Statistical Office of the SR: the databases of Eurostat [18; 19]

[1]Index of perception of corruption is focused on the corruption in the public sector and defines corruption as a misuse of public administration for the purposes of private profit. It is a complex index, which is created on the basis of researches of independent institutions (FOCUS) which were made among entrepreneurs and inhabitants of the country.

Another indicator is the *unit labour costs,* which are the highest in Hungary, then go Poland and the SR, and the lowest values are in the CzR. The *productivity of labour* as a year-to-year change in %, was developing as follows: whilst in the year 2010 it was in the SR of 6%, in Poland 6.7%, in the CzR 3.5% and in Hungary only 0.2%, in the year 2011 there was a decline in the all V4 countries, and a relatively low level was reached in the year 2012 as well. In the CzR and Hungary, there were even negative levels. The *average wage* in the SR has a growing trend and it corresponds to the performance of economy and productivity of labour. When comparing the development of wages, it is the highest in the CzR, then in Poland and the lowest level is in Hungary.

Labour force determinant, which is important in selecting the locality for the future FDI, and mainly the indicators of productivity of labour, then sufficient number of labour force, their structure, qualifications and ability to conform to the new conditions, but also the level of nominal wage as the cost item are monitored. Development of the number of labour force in the years 2010-2012 in the SR was as follows: 2.719 million, 2.7064 million and it was 2.7361 million. There were no greater changes in other V4 countries as well.

An important determinant is also ***the quality of business environment,*** which creates the conditions for a long-term sustainability of economic growth as a basic precondition of business development. International comparison was made by means of more indices, out of which we present the index of total competitiveness published by the World Economic Forum (further WEF) and the survey of Doing Business of the World Bank (WB).

The index of total competitiveness belongs to the oldest ones being yearly updated and indicates the perspective of the country to reach sustainable economic growth in a middle-term horizon. It evaluates e.g. the quality of public institutions, government policy and other factors conditioning the level of productivity in a given economy. According to the results of the report on global competitiveness of 2013-2014 the SR decreased by 7 levels to the 78th place out of 148 evaluated countries, and it is historically the worst position reached. The development of competitiveness in the V4 countries is given in the following table, which shows that the most stable position is kept by Poland, and then the CzR and Hungary (see Table 2).

Tab. 2: **Development of the position of global competitiveness in the V4**

V4 countries	2010	2011	2012	2013
Slovak Republic	60	69	71	78
Czech Republic	36	38	39	46
Hungary	52	48	60	63
Poland	39	41	41	42

Source: [22]

Annually in the survey *Doing Business,* the WB compares the business environment in the world economies and issues a report. In the report of the year 2014 there were 11 indicators in 189 countries of the world. The SR, which had been in the previous evaluations the best of the V4 countries, was ranked at the 49th place. Poland improved her position and was the 45th, Hungary was the 54th. The CzR was at the worst 75th place (see Table 3).

In evaluating, the most problematic factors of business in Slovakia (according to the survey of WEF) are the following: ineffective state bureaucracy (19.7%), corruption (18.7%), restrictive working regulation (13.6%), and political instability (9.9%). In other V4 countries, the most problematic factors are e.g. tax rates, tax regulation, approach to financing and the like.

The determinant ***the state of infrastructure,*** its density and its amenities is one of the main conditions. which can intensively set back the inflow of foreign investors in less developed regions (it is said that where there is an end of the highway, there is an end of the FDI). The traffic infrastructure includes the length of road network, which has a stagnating character in the SR and is of the length of 43,916.2 km at the density of road transport the development of which did not change much in the years monitored and was about 89.55 km of roads per square km. The length of railroads in km has slightly downward course and its length in the period monitored was 3,587 km. In the air transport in the year 2010 the number of registered flight operators was 2,702, in the year 2011, it decreased to 990 and in the year 2012, there was slight increase to 1,276. In the position of the V4 countries (according to the data WEF) as for the evaluation of total infrastructure, the CzR was the best, and then Hungary followed; the SR and Poland had worse positions.

Other determinants, such as ***the tax system and investment incentives*** are also very important in decision making of investors. Tax burden and wage of employees in comparison of the SR (19%) with the V4 countries, is lower only in the CzR (12.5%). When comparing the income tax of legal entities of the V4 countries, the SR has the highest tax rate (23% since 2013 and 22% since 2014), the tax of other countries being lower (19-20%).

As at present in the economies there is not a great difference in creating tax conditions for investors, even a small change in them can «persuade» the investor to locate the FDI. Foreign investors are especially sensitive to *investment incentives,* providing of which is time limited and when they are over, an investor often moves to another country. In spite of that, when increasing the competitiveness, a targeted support of investments is important.

Investment incentives in the V4 countries are provided in framework conditions, determined by the European Commission and valid legislation in every country in compliance with the laws within the EU. In the V4 countries, there are different systems of FDI support, which take into consideration real differences in economic maturity and social needs of individual regions. The structure of state support is based on two main rules. The first one is prohibition of such a form of support, which would prevent competition in the internal market; the second one is better support for poor regions. In the V4 countries, there are differences, but also common elements in the approach to the support of investments and in providing them. The main forms of direct support include the tax (e.g. tax holidays) and non-tax incentives (e.g. support in case of creating a new working place and contribution for education), then it is directing the support to backward regions, to innovations, to branches with high added value, for protection of living environment and the like.

In the SR, the regional support and help in employment is provided mainly in the industrial production, technological centres, centres for strategic services and in tourism. In the CzR, investment stimuli are provided mainly in the sector of industry, in the sphere of services and technologies and mainly for the programmes of sophisticated projects in the technological centres. In Hungary, they are directed to industry, transport and logistics, to human resources, research and development, tourism and the like. In Poland, it depends on a specific project and results from a total amount of stimuli in the specific fiscal year. For the purposes of FDI, more activities are used including the regional, horizontal and sector instruments of help.

Conclusions. When evaluating the SR from the point of view of investment attractiveness in comparison with the V4 countries, we can claim that the economy is belonged to the most dynamically developing one with the highest economic growth. Recession, which was fully manifested in the year 2009 and was a worldwide one, referred to all countries of the world and slowed down the economic growth, high unemployment came into existence which is still lasting. In spite of that, the SR has kept high economic growth and a relatively better position in more aspects, but we must also see the negatives, mainly in the development of unemployment. The solution lies in increasing the dynamics of economy and it is not possible without FDI. Therefore, it is important to improve the determinants of investment attractiveness of economy, which may bring external resources and secure a long-term growth. The main determinants include political and macroeconomic stability, high quali-

Tab. 3: **Position of V4 countries in the survey Doing Business 2014**

Indicator	SR	CZR	HU	PL
Quality of business environment	49	75	54	45
Start of business	108	146	59	116
Licence procedure	53	86	47	88
Access to the electric energy	65	146	112	137
Property registration	11	37	45	54
Availability of Credit Resources Capital	42	55	55	3
Protection of investors	115	98	128	52
Paying taxis	102	122	124	113
Over the border trade	108	68	70	49
Enforceability of contracts	65	75	15	55
Solving Insolvency	38	29	70	37
Index of security rights (0-10)	8	6	9	7
Index of credit information (0 – 6)	4	5	6	4
Coverage of public credit registries (in % of the adults)	2,7	6,4	0,0	0,0
Coverage by private companies (in % of the adults)	61,6	76,0	82,8	73,2

Source: Database Doing Business 2014 [21]

ty of business environment, labour force, developed infrastructure, tax system and investment stimuli. Analysing them, we have come to the conclusion that the position of Slovakia belongs to the best in V4 area, but some indicators must be improved.

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