Investment incentives and regional cohesion in Slovakia

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Abstract

Paper deals with recent problems of regional distribution of investment incentives in Slovakia, which are officially being provided to foreign investors under the European Union's regional aid and national state aid legislation. It comes to a conclusion that these incentives often do not promote the economic and social cohesion on a country level, but rather contribute to further growth of regional disparities in Slovakia. The key problem in our view lies in a fact that approvals of investment incentives on a level of the national Government often do not take into account specific social, demographic and environmental features of the regions concerned. In our view investment incentives should not be further used as a quick solution to overcome the current macroeconomic problems, but rather should stimulate balanced regional economic growth based on comparative advantages and regional government priorities of specific regions - a growth that would have a tendency to sustain and further develop in a long term view.

Key words: investment incentives, foreign direct investments, region, regional disparities

1 Introduction

Slovak Government recently approved brand new Act on investment aid (as of September 2007, the proposal was not yet approved by the Parliament). In the introductory statement to this draft Act, the Ministry of Economy stated that one of key principles to be attained is to motivate investors to locate new investments into economically underdeveloped regions. However, neither analysis of past practice of providing investment incentives from regional dimension, nor analysis of expected impacts of proposed legislative changes on regional dispersion of investment incentives were attached to the Ministry's introductory statement. In this paper we would therefore like to shed more light on these important issues. We begin with a short compilation of theoretical and legal background of investment incentives in Slovakia. After that, a history of providing investment incentives in Slovakia is briefly outlined. Then we process available data on investment incentives approved in the 2003-2006 period, with a focus on their regional dimension. We finish the paper with some remarks on possible driving factors of the results of our analyses, and present our thoughts on possible future development.

2 Investment incentives and regional cohesion in Slovakia

Economic literature on investment incentives is typically focused on researching investment incentives in relation to attracting foreign direct investments (FDI). As frequently quoted author of economic literature Lipsey noticed, impacts of FDI are often put in the context of the use of investment incentives to foreign-owned firms and the question whether these subsidies were worth while" [1]. As we will describe in the following sub-chapter, FDI were major receivers of investment incentives in Slovakia. However, officially proclaimed aim of the newly proposed Slovak Act on investment aid is to set equal right to benefit from investment incentives to both domestic and foreign owned companies. We think that this aim is right and legitimate.

Introductory statement to the newly proposed Slovak Act on investment aid states that "important principle is to grant investment incentives only for projects that would not be realised without these incentives" [2]. This principle is, however, not often mentioned in the economic literature. Pershin, one of the authors of most comprehensive reviews of economic literature on FDI, suggests that this principle may be just a political phrase. Based on conclusions of numerous studies quoted in his paper, Pershin states that "substantial literature in the academic journals clearly indicates that incentives to foreign investors count very little in corporate location decisions" [3]. But Pershin describes many limitations in a validity of the studies used as a basis for his argumentation. And some studies by other economists resulted in more or less opposite conclusions. Nevertheless, as Lipsey stated, "policy making has come to ignore the ambiguous and inconclusive academic literature" [4]. Investment incentives, despite of their criticism by authors of economic literature, will most probably remain favourite instrument of politicians in attracting new investments. And since Slovakia, as a destination of investments, competed and will compete for new foreign investments mostly with neighbouring Czech Republic, Hungary, Poland and Ukraine, which all provide investors with significant investment incentives, we can presume that incentives do count in decisions on final location of investments "destined by foreign investors" for the Central and Eastern Europe.

On the basis of Treaty establishing the EU, state aid granted to promote the economic development of certain disadvantaged areas within the EU may be considered to be compatible with the EU common market [5]. Such a state aid is officially classified as "regional aid", and is by far the largest category of a state aid in the EU [6]. According to the present EU guidelines on regional aid, state aid provided to investments located in regions (NUTS 2 size) where a per capita gross domestic product (GDP), measured in purchasing power standards (PPS), is less than 45 % of the EU average, is eligible up to 50% of total investment costs [7]. This applies to two Slovak NUTS 2 regions – Eastern and Central Slovakia. In the Western Slovakia, where per capita GDP in PPS was at the time of EU regional aid rules adoption 45,42 % of the EU average, state aid is eligible up to 40% of total investments costs [8]. State aid for investments located in the most developed Slovak NUTS 2 region around the capital Bratislava is since 2007 not eligible, with exception of eight localities in this region, where limited state aid is eligible until 31 December 2008 [9]. However, this state aid must be a part of a welldefined regional policy of Slovakia and adhere to the principle of geographical concentration [10]. To conclude: based on the level of economic development of Slovak NUTS 2 regions (measured by per capita GDP in PPS), investment incentives from the Slovak Government should primarily be granted for investments located into Eastern and Central Slovakia, slightly less into Western Slovakia, and only in the exceptional cases into the Bratislava region.

Brief history of providing investment incentives in Slovakia

After Slovakia was established in 1993, its first Government led by Vladimir Mečiar adopted several measures which we could include into a category of investment incentives (mainly rules on corporate tax cuts). But these measures lasted only for a short period of time, and were later replaced by measures to support revitalisation of state companies that started to have severe economic problems. Preference of foreign investors started with adoption of the "Strategy to promote inflow of foreign investments into Slovakia" in March 1999, which was one of the first strategic documents adopted by the Dzurinda Government after replacing Mečiar Government in power in 1998.

Since 2000, tax breaks were automatically granted to all investments, on condition that the ownership share of a foreign owner exceeded 75% and that investment costs exceeded the amount stated in the Income tax Act (EUR 1,5 – 5 million based on a branch of business and based on a level of unemployment in the investment's destination). The amendment of the Income tax Act, valid from 2001, enabled also domestic companies to qualify for the tax breaks. But high minimal investment costs remained to be required in order to qualify for investment incentives. And it was indeed an obstacle that was (at a time of difficult access to rather expensive loans in Slovakia) practically impossible to overcome for domestic investors.

After the EU intervention in 2001 against granting tax breaks "in lump sums" automatically to all companies that fulfilled legislatively set quantitative criteria, the Income tax Act was amended. However, the new condition that the Slovak state aid office had to approve tax breaks, was practically only a formality. The practice of providing foreign investors with tax breaks continued as before. This strong statement can be best proved with a fact that the audit of the State Aid Office, conducted by the Audit Section of the Slovak Government Office in May and June 2001, concluded that in 8 out of 10 randomly selected cases of state aid were approved in a contradiction with a tenor of the State Aid Act [11].

On a top of tax cuts, investments over 1 billion Slovak crowns (at that time circa EUR 25 million) could from 2000 benefit from Act on significant investments. This Act enabled the Government to expropriate the land, on which the investment was to be built, far below market prices. Investors that qualified for incentives under this Act did not only benefit from much cheaper prices for acquired land, but also from simplified land-acquisition procedures.

Since 2002, foreign investors could benefit from Act on investment incentives, which enabled the Government to grant foreign investors state aid as a "reward" for creation of new jobs and for a re-training of employees. Since March 2002, EU regulations on regional aid were (more-less formally) incorporated into Slovak legislation. Nevertheless, until the end of 2002, investment incentives were not being approved by the Government [12]. It is therefore very difficult to obtain reliable data on investment incentives before 2003 that we could include into our analysis.

Since 2003, investment incentives started to be approved by the Slovak Government. In 2003, only two investment projects were supported. However, one of them – Peugeot's new car production plant in Trnava (Western Slovakia), received investment incentives in a value exceeding 5 billion Sk, i.e. circa 20 % of total investment incentives granted in the 2003 – 2006 period. This could happen due to the fact that binding official rules on providing investment incentives at that time did not exist. Formally, foreign investors had to submit their requests for investment incentives together with calculations of benefits that the investment would mean for the public funds. These calculations had to be written in accordance with a manual, which was an enclosure to the Act on the investment incentives. But according to the Ministry of Economy, the practice of foreign investors with submitting this information according to mentioned manual was “such, that investors, respectively their officials provided requested data… some investors for a period of investment’s lifetime, some for a period of benefiting from a state aid… i.e. some for a period of 5 years, others for 6, some even for a period of 10 years. From that reason, the data were not always exact and consistent with the relevant impact on their interpretation, or ability to compare different investments one with another” [13]. Despite of that, at this time, the highest investment incentives were approved. “A package of incentives” valued over 5 billion Slovak crowns (circa EUR 140 million) for a car producer Kia, approved in March 2004, is considered to be the most controversial case. As the Ministry of Finance later stated, the Ministry of Economy was consulting investment incentives with foreign companies on its own, without consultations with the Ministry of Finance, and as a result, there were hidden forms of investment incentives introduced, mainly in the case of investment by the Kia car producing company [14]. Later, unprecedently high investment incentives were promised to Hankook company, and refusal of their approval by the Government that had negative impact on credit of the Slovak Republic in eyes of foreign investors [15]. These two were the main reason why the Government decided not to approve any investment incentives in 2005, and the Ministry of Finance started to prepare rules on providing of investment incentives. These rules were adopted by the Government on 26th October 2005. But the first investment incentives, provided based on these rules, were approved by the Government only almost a year later.

In a middle of 2006, Dzurinda Government was replaced with the current Government lead by Robert Fico. Soon after taking the power, the new Government amended rules on providing of investment incentives. But these amendments were not significant, and we think they are not worth describing in this paper. After approving rather small investment incentives for only one project in a period July – November 2006, the Government approved investment incentives for 46 projects in a total value of 25.6 billion Sk in December 2006. For these 46 investment projects, much more detailed information was disclosed than for past ones.

As we already mentioned, the data on investment incentives, granted until the end of 2002, are not publicly available, and would be very difficult to obtain. Since 2003, as the incentives started to be adopted by the Government, reliable official data are publicly available. Their analysis follows.

Regional dispersion analysis of investment incentives in Slovakia approved in 2003 - 2006

Slovakia is divided into eight self-administrative regions (NUTS 3 size). Population in these regions varies from 552 to 794 thousands of inhabitants (see Table 1 below), i.e. the largest region has 43% more inhabitants that the smallest one. Therefore, in order to compare dispersion of investment incentives amongst regions objectively, we consider it appropriate to also use the amount of investment incentives per inhabitant of recipient region as an examined indicator. Bratislava region, as we already stated, is eligible only for a limited investment incentives. Thus it does not make much sense to compare inflow of investment incentives into Bratislava region with the other regions. Nevertheless, for the purpose of completeness, we included Bratislava region into comparison graphs.

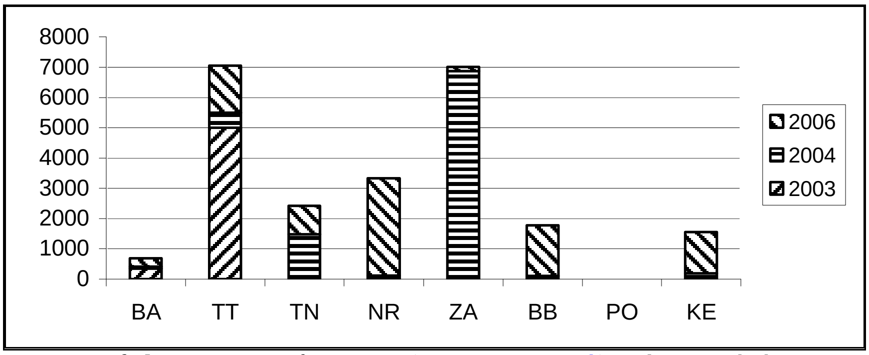
Table 1: Administrative regions (NUTS 3 size) and NUTS 2 units in Slovakia

Region		Population in 2003 (in thousands)	NUTS 2 unit	Population in 2003 (in thousands)
Bratislavský kraj	(BA)	600	Bratislava region	600
Trnavský kraj	(TT)	552	Western Slovakia	1 865
Trenčiansky kraj	(TN)	603		
Nitriansky kraj	(NR)	710		
Žilinský kraj	(ZA)	693	Central Slovakia	1 353
Banskobystrický kraj	(BB)	660		
Prešovský kraj	(PO)	794	Eastern Slovakia	1 562
Košický kraj	(KE)	768		

Source of data: ***EUROSTAT***

For the purpose of the EU regional policy, four NUTS 2 size units were "artificially created" (see right section of Table 1 above). Bratislava region, which is the NUTS 3 and NUTS 2 category region at the same time, was (from already stated reason) included into our comparison graphs solely for the purpose of their completeness. When it comes to other three NUTS 2 units, for which we aim to compare dispersion of investment incentives, the difference in the size of population between the biggest one and the smallest one is rather significant as well (38%). We therefore, again, apart from the amount of investment incentives, decided to compare also the amount of investment incentive per one inhabitant of relevant recipient territorial unit.

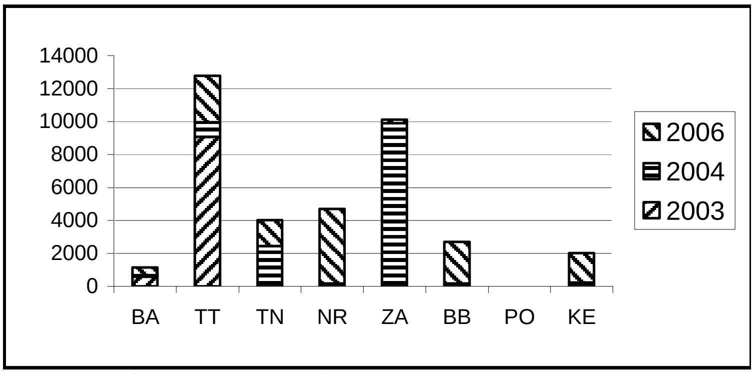
Graph 1: Dispersion of investment incentives into regions in 2003 - 2006
(in millions of Slovak crowns)



Sources of data*: Ministry of economy (www.economy.gov.sk) and own calculations. (incentives for Gabor, s.r.o. from 2004 of 60 million Sk were split equally between production locations of Bánovce nad Bebravou (TN) and Liptovský Mikuláš (ZA).*

The Graph 1 shows that investment incentives were dispersed into regions very unevenly. Adjustment of examined indicator into (in our opinion more objective) amount of investment incentives per one inhabitant of recipient region (Graph 2) makes the disparities even more sharp. It can be explained by the fact that Trnavský kraj (TT), which hosted investments with the largest total amount of incentives, is the smallest Slovak region. Clearly visible is the impact of already mentioned two investments which together received circa. one half of all incentives approved in the examined period (Peugeot car production plant in Trnavský kraj (TT) in 2003 and Kia car production plant (together with its supplier Mobis) in Žilinský kraj (ZA) in 2004). Prešovský kraj (PO) did not host any investment supported with incentives. As we already mentioned, the region around the capital city Bratislava (BA) was since the entry of EU legislation into consideration (2002) and force (2004) eligible only for very limited state aid, which explains the low amount of incentives in relation to this region.

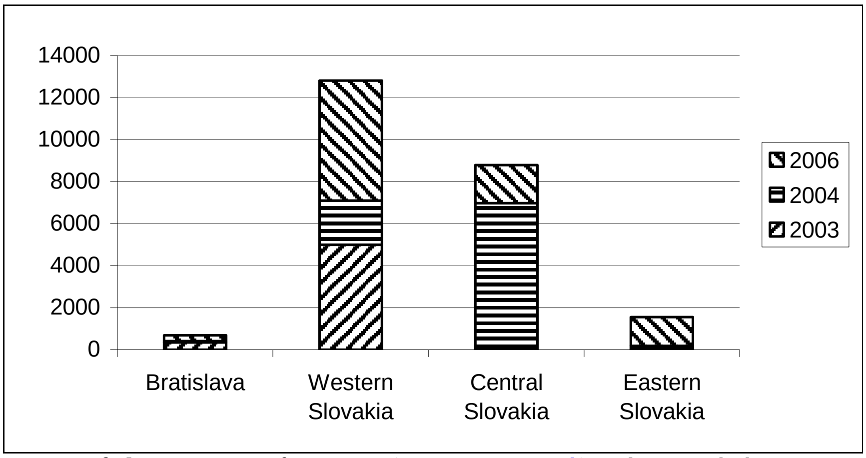
Graph 2: Investment incentives in 2003 – 2006 by regions (NUTS 3)
(in Slovak crowns per one inhabitant of a region)



***Sources of data**: Ministry of economy (www.economy.gov.sk) and own calculations.*
(incentives for Gabor, s.r.o. from 2004 of 60 million Sk were split equally between production locations of Bánovce nad Bebravou (TN) and Liptovský Mikuláš (ZA).

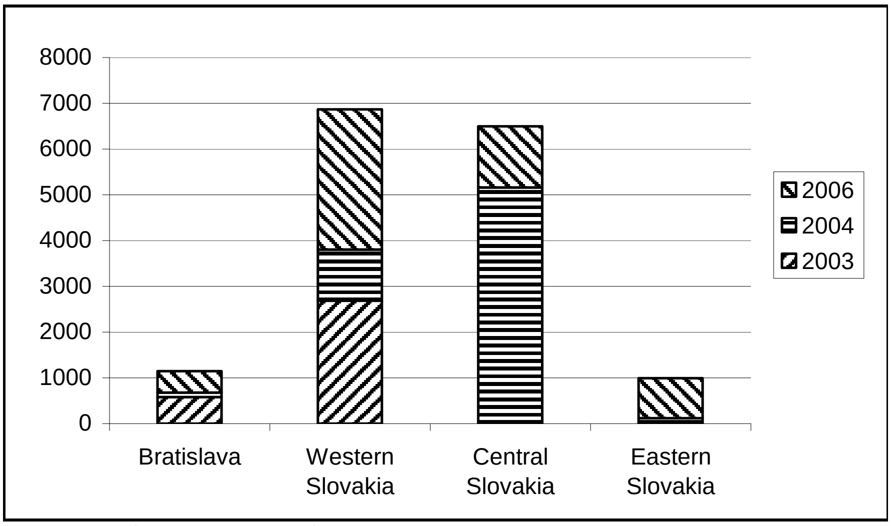
In Graphs 3 we illustrate dispersion of investment incentives in amongst the Slovak NUTS 2 units. In the Graph 4, just like in the Graph 2, we use the size of investment incentives per one inhabitant in relevant territorial unit as an examined indicator.

Graph 3: Investment incentives in 2003 – 2006 by NUTS 2 units
(in millions of Slovak crowns)



***Sources of data**: Ministry of economy (www.economy.gov.sk) and own calculations.*
(incentives for Gabor, s.r.o. from 2004 of 60 million Sk were split equally between production locations of Bánovce nad Bebravou (TN) and Liptovský Mikuláš (ZA).

Graph 4: Investment incentives in 2003 – 2006 by NUTS 2 units
(in Slovak crowns per one inhabitant of a territorial unit)



Sources of data*: Ministry of economy (www.economy.gov.sk) and own calculations. (incentives for Gabor, s.r.o. from 2004 of 60 million Sk were split equally between production locations of Bánovce nad Bebravou (TN) and Liptovský Mikuláš (ZA).*

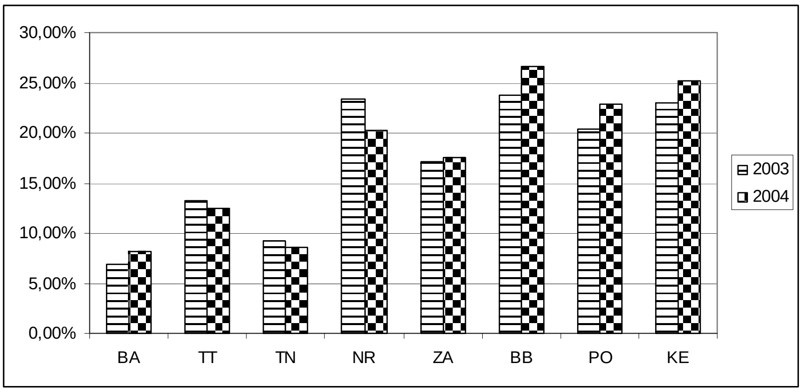
Graphs 3 and 4 illustrate how significantly the Eastern Slovakia lacked behind the Central and Western Slovakia. As already mentioned, this was caused mainly by these two factors: (1.) investments into already mentioned Peugeot and Kia (plus Mobis) car production plants that received inprecedently high investment incentives, and (2.) the fact that Prešovský kraj (PO) did not host any investment project supported with investment incentives in the 2003-2006 period.

Impacts of regional distribution of investment incentives granted in 2003 – 2006 period

At the moment of writing of this paper, the data on regional GDP were (on the webpage of the Statistical office of the Slovak republic) available only up to year 2004 (with the data for 2004 being only preliminary). It is therefore impossible to evaluate changes in the regional disparities (as measured by the GDP) in the period affected by the "first wave" of investment incentives (2003-2004). Furthermore, investments supported with incentives in 2006 will be generating the GDP only starting from 2007 or 2008, so we could analyse these only by the end of the decade.

Nevertheless, some thoughts on the reasonability of regional dispersion of investment incentives in 2003-2006 can be made based on selected indicators. In Graph 5 we illustrate the level of unemployment in Slovakia in 2003 and 2004. It is clear that the level of unemployment in the regions of the Western Slovakia, with exception of Nitriansky kraj (NR), was far below the country's average. Locating the first large investment supported with significant incentives (Peugeot) into Western Slovakia's Trnavský kraj (TT) wasn't therefore in line with the aim to locate investment into regions with high unemployment. The same can be said about the location of Kia's investment into Žilinský kraj (ZA) in 2004 - the fact that this investment was located outside of the Western Slovakia (which was a welcomed decision) is neglected by another fact revealed in the Graph 5: this investment was located in the only region of Central or Eastern Slovakia where the level of unemployment was not rising significantly, but "only" stagnated.

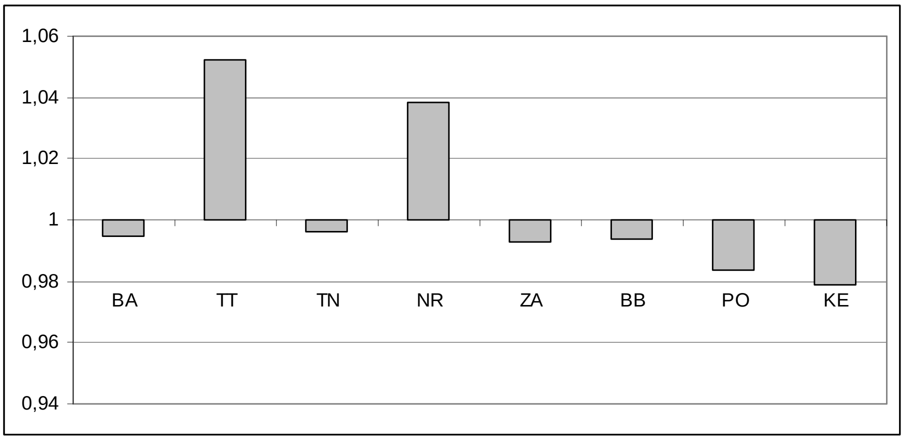
Graph 5: Unemployment in Slovakia by regions in 2003 and 2004



***Source**: Statistical office of the Slovak Republic (www.statistics.sk)*

Graph 6 illustrates regional disparities in the annual growth of regional GDP in 2003, calculated in comparison to the average annual GDP growth in a country. It is clear that in 2003 it was not reasonable to direct vast majority of investment incentives into Trnavský kraj (TT), where the GDP growth in a current year was highly above nation's average. Of course, the Dzurinda Government could not had been aware of such differences in the regional GDP growth.

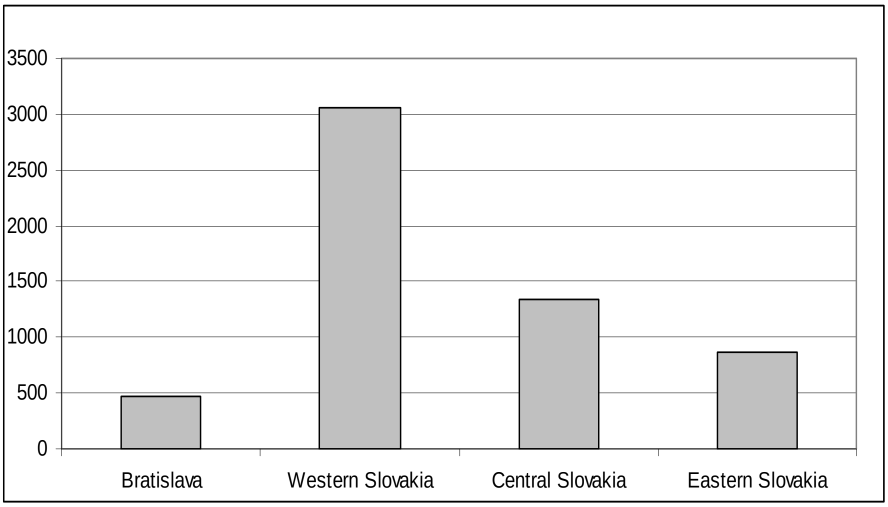
Graph 6: Regional GDP growth in comparison to average GDP growth in 2003 / 2002



***Source**: Statistical office of the Slovak Republic (www.statistics.sk) and own calculations*

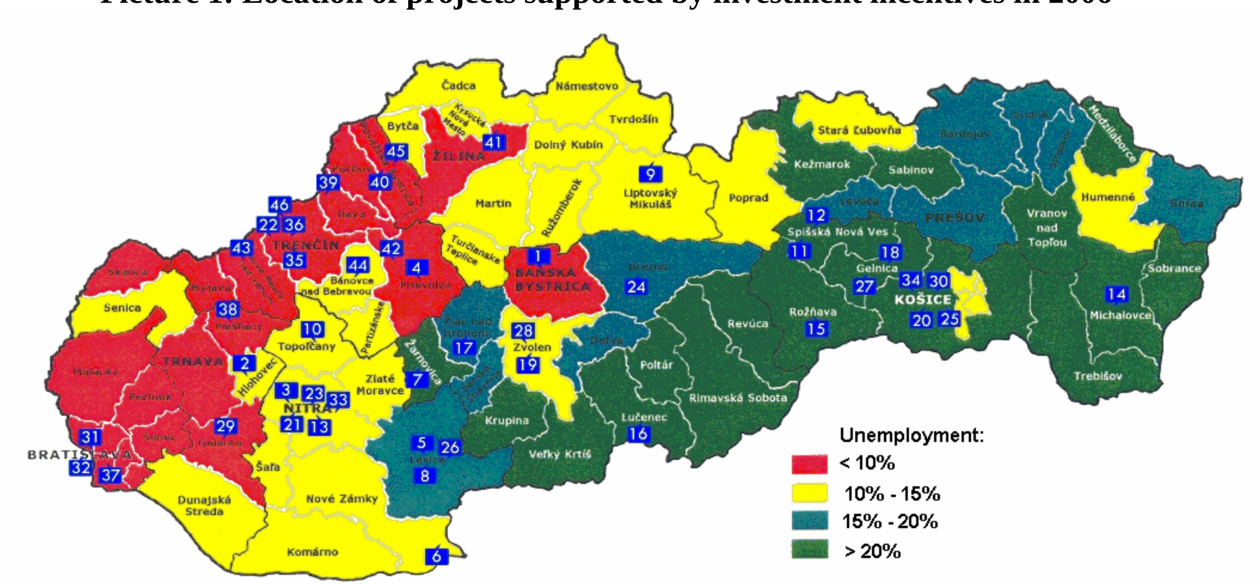
In 2006, investment incentives were again granted mainly for projects in the Western Slovakia (on top of Graphs 3 and 4, we have created also Graph 7 below to better illustrate this fact). And, as Picture 1 below shows, supported investment projects were often located in places where the level of unemployment was below the nation's average (red zone on the west). Picture 1 also reveals another important fact: even if incentives were granted for investments in the East, the supported projects were often located in or near the city of Košice, the second largest city in a country, whose economic development is far above country's average and "eliminates" statistical effects when it comes to the underdevelopment of Košický kraj (KE) and whole Eastern Slovakia.

Graph 7: Investment incentives in 2006 by NUTS 2 units
(in Slovak crowns per inhabitant of recipient NUTS 2 unit)



***Sources of data**: Ministry of economy (www.economy.gov.sk) and own calculations.*

Picture 1: Location of projects supported by investment incentives in 2006



Source: Ministry of economy (www.economy.gov.sk)

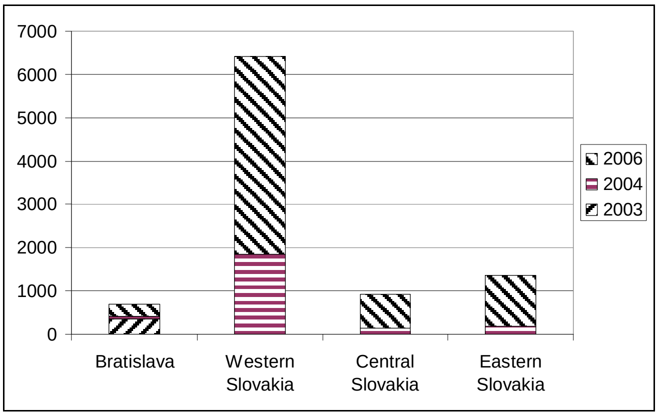
Based on the results of analyses stated above, we think that investment incentives provided in the 2003 – 2006 period did not promote neither economic, nor social cohesion within the country. We think that they rather contributed to further growth of regional disparities in the levels of the GDP and unemployment amongst East and the West. However, we have to wait for the data on the regional GDP in 2004 – 2008 to be able to make final conclusions. Nevertheless, as the results our analyses revealed, should there even be a convergence in the regional GDP between the East and the West, it is very unlikely that this convergence could have been stimulated by new investments supported with investment incentives.

Possible reasons of regional dispersion of investment incentives approved in 2003 – 2006

As true reasons of described regional dispersion of investment incentives are known mainly by few officials from the Ministry of Economy and the Ministry's agency for promotion of FDI, and/or by the members of the Government, we can present here only some remarks, based on our thoughts and speculations. Factor which without any doubt made it difficult to locate large investments into Eastern Slovakia was missing highway connection to the East. But this obstacle could had been overcome by constructing highway from the city of Košice to Hungarian city of Miskolc, which is linked to highway network. As the highway between the cities of Košice and Prešov already exists, connecting Košice to Miskolc would link both Eastern Slovakian regions (PO, KE) to highway network. Construction of Košice-Miskolc highway, though naturally almost useless for Hungarians, would be in our opinion important from the EU perspective as an important junction between the EU and Ukraine. But rather than promoting this truly "European solution" of the problem of the Eastern Slovakia, the European Commission put a blind eye on the issue and further continued to approve investment incentives for many projects located in the Western Slovakia, "just because" the latest available assessment of (few years old) Western Slovakia's GDP did not yet reach the threshold of 75% of the EU average.

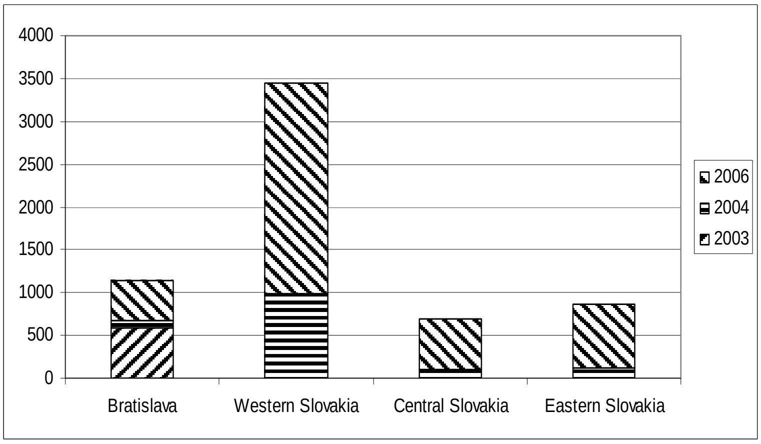
Some explain the "pro-western" regional dispersion of investment incentives in Slovakia by the interest of car production companies to locate their investments in the western half of Slovakia (not just due to the existence of highway connection, but also due to agglomeration effects with the suppliers of the Volkswagen production plant that are located in the Western Slovakia). To prove that this explanation is not the sole reason for the majority of investment incentives ending up in the western part of the country, we have made separate analysis of investment incentives, in which we omitted not just both Peugeot and Kia (including Mobis) investments, but also all 13 investments in the "automobile sector" that got their incentives approved in 2006 (assuming that all of these investments might be fostered by recent constructions of Peugeot and Kia plants in Slovakia). The results of analysis of this artificial scenario are shown in Graphs 8 and 9. In such scenario, the Western Slovakia still remains "almost exclusive" destination of investments supported with incentives. Moreover, in such a scenario, even the Central Slovakia would be seriously lacking investments supported with incentives, even to a larger extent than the East.

Graph 8: Investment incentives without car industry in 2003 – 2006 by NUTS 2 units
(in millions of Slovak crowns)



***Sources of data**: Ministry of economy (www.economy.gov.sk) and own calculations*

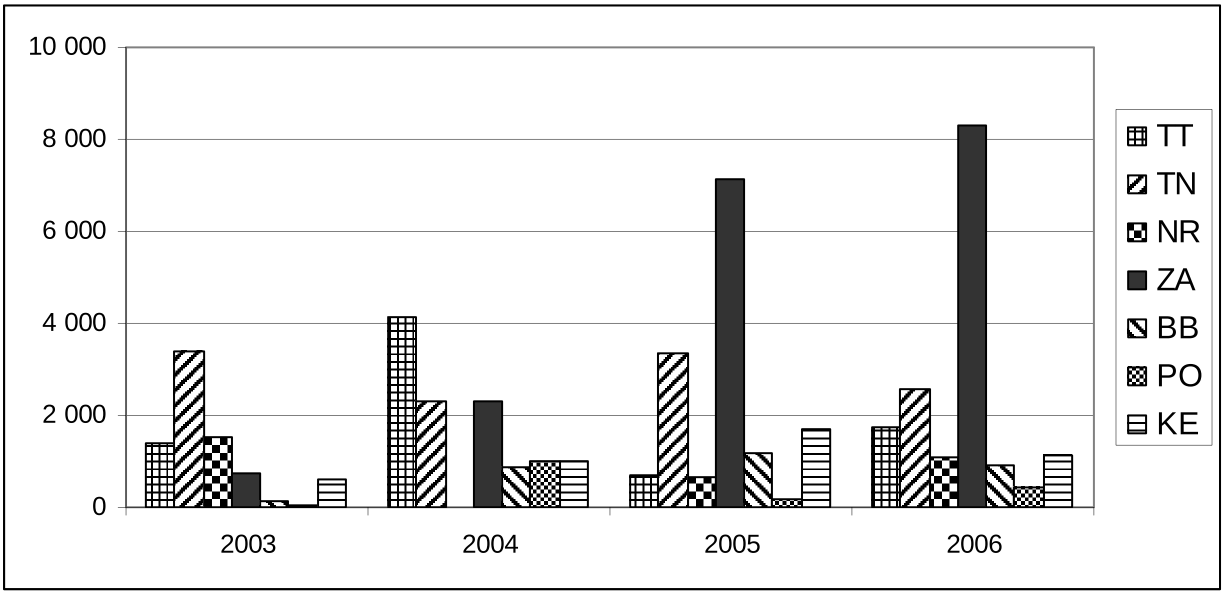
Graph 9: Investment incentives without car industry in 2003 – 2006 by NUTS 2 units
(in Slovak crowns per one inhabitant of a territorial unit)



***Sources of data**: Ministry of economy (www.economy.gov.sk) and own calculations*

Nevertheless, we do not want to neglect the strong impact of the fact that majority of investment incentives were approved for investments in car production related industries. The preliminary data on the inflow if FDI into Slovak regions (we excluded FDI into banking sector from our analysis), illustrated in the Graph 10, clearly indicate that there was significant impact of investment incentives for Peugeot (TT, approved 2003) and Kia (ZA, approved 2004) projects on the regional dispersion of FDI inflow. Lacking of the Eastern Slovakia's regions (PO, KE) when it comes to all FDI (i.e. including those that were not supported with investment incentives) is clearly visible, too. Impact of FDI on further growth of regional disparities is indisputable.

Graph 10: Inflow of FDI into Slovak administrative regions in 2003 - 2006
(in millions of Slovak crowns, without banking sector. Data are preliminary)



***Sources of data**: National bank of Slovak Republic (Menový prehľad August 2007 and December 2006).*

3 Discussion

Our quantitative analysis of regional dimension of investment incentives approved in the 2003 - 2006 period revealed certain facts about regional dispersion of investment incentives in Slovakia and their impact on regional disparities in the inflow of FDI and estimated impact on growth of regional disparities between the East and the West. Nevertheless, as all quantitative analyses, it does not tell us anything about qualitative factors.

Apart from already mentioned missing highway links to the Eastern Slovakia, we think that the second important qualitative factor might be regional dispersion of heavy and light industries in former Czechoslovakia. While Central and Western Slovakia were historically more orientated on the machinery industries (mainly production of arsenal weapons and vehicles), in the Eastern Slovakia (with few exceptions such as steel industry in the city of Košice) there were only few heavy industries factories, and "light industries" such as textile or shoemaking were dominant. After the inprecedent "flooding" of European markets by cheap Chinese products, many of production factories in the Eastern Slovakia started to face severe problems. As their workers were not skilled for machinery industries, new jobs created with a support of investment incentives in the Western and Central Slovakia can not be utilized by many unemployed from Eastern Slovakia. As the president of the Unions of Machinery industries assumes, the share of foreign workers in Slovak machinery industries production plants may rise from the present 2-3% to the 20% in 2010 [16]. Benefits from new job positions, which will be created as a result of the investment incentives approved in the 2006 mainly in the western part of Slovakia, might at the end be to a large extent utilised by foreigners.

We would also like to note that concerns of negative environmental impacts of new investments should be also taken into account when evaluating eligibility of investment projects for incentives. And this should be taken very seriously especially when it comes to new investments in the economically most developed NUTS 2 unit Western Slovakia. Projects such as investment of Samsung Electronics, unfortunately located in the site proposed for the inclusion into NATURA 2000, shouldn't in our opinion be eligible for investment incentives, unless they prove to have exceptionally positive impacts on the economy and social situation. And this was not the case of Samsung investment near Galanta, whose incentives were approved in 2006: incentives totalled more than 1 billion of Slovak crowns while contribution to the public finances was assessed by the investor only at 737 million Slovak crowns. Moreover, the state aid per one created new job position reached 1.37 million Slovak crowns, which is a lot more than in the majority of other cases approved in 2006.

The newly proposed Act on investment aid goes, in our opinion, in a right direction: it creates equal rights for domestic investors and it significantly decreases the minimal amount of investment costs (needed in order to be eligible to request investment incentives) for localities with high unemployment rates and also for selected "light" industries (tourism, research). Such legislation, if adopted, may help to create new jobs in small and medium enterprises, which, in our opinion, should be the prioritized category in the nation's economy.

But, in our opinion, this fact solely can not be a sufficient measure to combat growing regional disparities between the West and the East when it comes to attracting larger investments (whose impacts on employment is more significant). We think that at least three measures must be adopted in order to make investment incentives helping to cease growing disparities between the West and the East:

1. investment incentives should be completely banned in regions and localities where the level of unemployment is below 10% (the red zone on the Picture 1),
2. not just the minimal investment costs threshold should be graded based on the level of unemployment in the locality and a type of investment, but also (and more importantly) the eligible maximal amount of investment incentives per one created job position should be introduced and gradually decreased in proportion to the level of employment in the investment's final destination and assumed negative environmental impacts of investment,
3. factors evaluated by the Government should not focus solely on investment's impacts on the public finances, but should also, apart of environmental concerns, take into account the number of unemployed in the destination region that are skilled and available for work once the evaluated investment project turns into a production plant.

As Slovakia now achieves historically the highest GDP growth in recent years, much more than the current EU average, and as the average unemployment rate decreased below 10% (to a level comparable for example with Germany), we think that investment incentives should not be further used as a "quick solution" to aimed to converge Slovakia's macroeconomic figures with those of the EU-15 countries. But they should rather stimulate balanced regional economic growth, based on comparative advantages and regional government priorities of specific regions - a growth that would have a tendency to sustain and further develop in a long term view.

4 Conclusion

Analyses of investment incentives can hardly be considered objective: quantitative analyses do not tell us anything about the important factors such as motivation of investors in choosing final locations (and the role of investment incentives in this motivation), qualitative analysis are dependent on questionnaire surveys (which are often not representative or the correctness of inputs may be questionable), and theoretical analyses may be speculations being far from what the reality is. But these factors should not be a reason to avoid analytical work aimed at examining the justification of investment incentives from a regional cohesion point of view.

The results of quantitative analyses of past trends in regional dispersion of investment incentives in Slovakia in 2003 – 2006 period revealed that investments located in the western half of Slovakia utilised majority of investment incentives. Especially the two largest projects (car production plants of Peugeot and Kia), which received investment incentives in a total value of approx. one half of total investment incentives approved in the 2003 - 2006 period, had inevitable strong impacts on uneven dispersion of FDI in the country. Despite the fact that data on regional GDP are so far available only up to the year 2004, we think it is pretty safe to assume that investment incentives granted in the 2003-2006 period contributed to the further growth of regional disparities in Slovakia between the East and the West.

Our additional analysis showed that position of the Western Slovakia as a dominant destination of investments supported by incentives can not be explained solely by the orientation of Slovakia on car production and related industries. Results of our theoretical scenario analysis, in which investments of Peugeot, Kia (incl. Mobis) and all investments into car production related industries in 2006 were omitted, revealed even stronger position of Western Slovakia as a destination of supported projects. It further showed that the Central

Slovakia would be, in such scenario, receiving as small portion of investment incentives as the Eastern Slovakia.

The worrying fact is that Western Slovakia continued to utilise investments with the majority of incentives also in the year 2006. This fact can be explained by missing highway connection to Eastern Slovakia and different historical industrial orientation between eastern regions on one side and central and western regions on the other side. But these factors, in our opinion, can not justify the approvals of state aid for certain investments in the Western Slovakia by the European Commission (for example investment of Samsung on site proposed for inclusion into NATURA 2000).

We think that the newly proposed Act on investment aid, despite being a step in a right direction, will not be a sufficient tool to make investment incentives helping to cease growing disparities between the East and the West. We proposed three framework measures that in our opinion might help to reverse the ongoing trends. And in the end, more attention should be devoted to the issue of highway connection to Eastern Slovakia through Hungary by the European Commission.

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