# Panel discussion: Upgrading the economy in the aftermath of the crisis

## Joint EIB-NBS webinar on Investment and Investment Finance in Slovakia, 26 February 2021

## Summary[1]

The panel discussed investment gaps and barriers to innovation and growth in Slovakia. Some investment gaps had widened for some time, such as in research and development, digital technologies, and climate change mitigation. Others had emerged during the pandemic. Significant financial resources are available to narrow these gaps, provided by structural EU funds, the Next Generation EU programme, national fiscal stimulus plans, and private markets, where financing conditions are very favourable.

The discussion soon focused on a key barrier to investment: a shortage of staff with the necessary qualifications. If skilled staff was in more amble supply, it might be easier to convince foreign companies to allocate not only production facilities but also research centres in Slovakia, for example in the car industry. This would, for example, help close investment gaps in R&D.

One response to the skills shortages would be to improve the education system. Many of the skills needed to drive innovation and growth are taught in tertiary education. The relatively higher quality of some foreign education systems is a key reason for which many students are studying abroad – indeed, the share of students studying abroad is one of the highest in the OECD. Given its comparatively small size, Slovakia might want to choose a handful of areas in which it builds centres of excellence in tertiary education.

While improving tertiary education is important, education might need to be strengthened at the primary and secondary levels as well. PISA scores of students in Slovakia tended to lie below those of some of its peers.

Improving education is not enough, however: students also need to be encouraged to work in Slovakia. One way to attract young, qualified staff is to offer them substantial responsibilities at an early stage in their career, perhaps with a cross-country, regional perspective. This is, for example, the approach taken by Slovenská Sporiteľňa, in addition

[1] The panel was chaired by Ľudovít Ódor, Deputy Governor of the National Bank of Slovakia. In the panel participated: Anita Fürstenberg-Lucius, Director of Operations in Central and Southeastern Europe, European Investment Bank; Peter Krutil, CEO, Slovenská Sporiteľňa; Mahmood Pradhan, Deputy Director, European Department, IMF; and Štefan Rosina, CEO, Matador Group. This summary presents an overview of the ideas that panellists discussed and should not be interpreted as a consensus view.

to offering a modern office environment and flexible work contracts.[2] Yet another possibility to improve the supply of qualified workers would be to ease immigration and residency rules, in particular for qualified staff.

Tax reform could also help increase the competitiveness of Slovakia. One possibility is to shift taxes from direct taxes on labour to indirect taxes. The economic argument is that direct labour taxes drive a wedge between what employees take home and their employer's cost of employing them. Lowering direct taxes on labour could increase labour supply in Slovakia and alleviate labour shortages. Raising indirect taxes however poses its own challenges: more and more consumption moves online, where it can be difficult to ascertain in which country the consumption took place. Generally, the move towards online consumption means that states need to coordinate their tax policies more closely.[3]

The Next Generation EU recovery package[4] will present Slovakia with additional opportunities to finance reforms that support innovation and growth. Slovakia intends to take advantage of the grants component of the package. Assuming that this will amount to €6.5bn (equal to 7.3% of Slovakian GDP) and fully absorbed between 2021-26, the National Bank of Slovakia estimated that Slovakia's GDP growth could increase cumulatively by up to 6.7pp.[5]

The longer-term impact of the NextGen EU programme will depend on how the funds are spent. Grants will only have an effect on GDP beyond the absorption period to the extent to which they are used for productive investment. If, for example, two thirds of the grants will be used for public investment and the rest for transfers, NextGen EU may add just under 1% to the level of GDP by 2030. But finding, coordinating, and efficiently implementing these programmes will be difficult. In the past, the absorption of EU structural funds has been slow. However, NextGen EU funds can be spent on a wider range of projects than EU structural funds, making it in principle easier to absorb them. The European Investment Bank's Advisory services offer help in this regard.[6]

A clear long-term strategy is necessary to coordinate how the funds are spent. In Slovakia, where manufacturing contributes almost a fifth to GDP, such a strategy has to include the automotive sector. The IMF is supporting some countries with the development of national recovery and resilience plans, in which member states outline how they intend to use the funds.

Whether the NextGen EU will be a game changer for fiscal policy is hard to tell. First, compared to national fiscal expenditures, the total amount of €750bn (including grants and loans) is relatively small (around 2.5% of EU GDP). That said, for some member

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[2] see Kariéra – Slovenská sporiteľňa (slsp.sk)
[3] See, eg, Fair Taxation of the Digital Economy | Taxation and Customs Union (europa.eu)
[4] For details, see https://ec.europa.eu/info/strategy/recovery-plan-europe_en
[5] See the 2020Q4 edition of the National Bank of Slovakia's Medium Term Forecasts - www.nbs.sk
[6] See Slovakia and the EIB.

states the grant component is large relative to their GDP, so that the programme can make a substantial difference for national public finances. Second, whether the programme will find a successor is likely to depend on how well the funds will be invested.