Humanities and Social Sciences **2025**
Research Journal 32, No. 1 (2025), pp 37-45 **January-March**

Received: November 2024
Accepted: March 2025
DOI: 10.7862/rz.2025.hss.03

Dominika FALISOVÁ[1]
Jozef GLOVA[2]

INVESTMENT INCENTIVES IN THE CZECH REPUBLIC

This study examines the effectiveness of investment incentives in the Czech Republic in reducing regional unemployment. Using correlation analysis, it investigates the relationship between job creation and unemployment rates across various Czech regions. The results reveal notable regional disparities: in the Central Bohemian Region, job creation is associated with lower unemployment while, in structurally affected areas such as Moravia-Silesia and Ústí, high job creation does not translate into lower unemployment due to factors such as skill mismatches and industrial decline. The Karlovy Vary Region shows particularly deep-rooted labor market challenges. The main contribution of this paper lies in demonstrating that investment incentives have inconsistent impacts and that their effectiveness is highly context dependent. These findings underscore the need for region-specific policy approaches that go beyond general job creation and directly address structural labor market weaknesses.

Keywords: government incentives, regional development, unemployment, Czech Republic.

1. INTRODUCTION

Investment incentives are a key tool in economic policy, aimed at attracting domestic and foreign investment, fostering economic growth, and enhancing regional development. In the Czech Republic, investment incentives play a crucial role in shaping the business environment and stimulating innovation. Over the years, the government has implemented various forms of incentives, including tax relief, subsidies, and grants, to support both local and international investors.

Despite their widespread use, the effectiveness of investment incentives remains a subject of debate. While some argue that they contribute significantly to economic expansion, others question their long-term sustainability and fiscal impact. This study examines the role of investment incentives in the Czech Republic, analyzing their influence on foreign direct investment (FDI), job creation, and technological advancement. By

[1] Dominika Falisová, Technical University of Košice, the Slovak Republic; e-mail: dominika.falisova@tuke.sk (corresponding author). ORCID: 0000-0001-8835-939X.
[2] Jozef Glova, Technical University of Košice, the Slovak Republic; e-mail: jozef.glova@tuke.sk. ORCID: 0000-0001-5972-7771.

assessing their strengths and limitations, this research seeks to provide recommendations for optimizing incentive policies to ensure a balanced and sustainable economic strategy.

2. LITERATURE REVIEW

Investment incentives, as instruments of public policy, are primarily designed to mitigate the concentration of investments in economically developed regions and to promote growth in lagging or underdeveloped areas. Numerous scholars have explored this topic, revealing both the strengths and shortcomings of such incentives.

Damborský (2023) found that the structure of investment incentives in place was insufficient to effectively support weaker regions. Belkhodja et al. (2017) emphasized that the impact of incentives varies depending on the investor's background and the surrounding environment. Similarly, Schalk & Untiedt (2000) observed that while incentives may generate short-term benefits, they do not significantly enhance long-term productivity or regional competitiveness—an assessment echoed by Garibaldi et al. (2001). The timing of incentive implementation is also crucial for determining effectiveness.

In Central and Eastern Europe, various determinants of investment have been widely studied. These include production costs, market size, and trade openness, as well as broader macroeconomic conditions (Bobenič-Hintošová et al., 2018). Another branch of literature focuses on institutional factors like infrastructure, government spending, corruption, and the rule of law (Chanegriha et al., 2017; Bilan et al., 2019).

In Slovakia, investment incentives are considered a foundational tool for attracting foreign capital (Fabuš, Csabay, 2018). In the Czech Republic, incentives are generally deemed effective but only in certain regions (Cedidlová, 2013; Hlaváček, Janáček, 2019). Johnson & Toledano (2022) point out that within the EU, some incentives qualify as "State Aid", which is defined by specific legal criteria and may risk distorting competition and affecting trade between member states.

Musil & Hedija (2020) argue that investment incentives are procyclical, responding to economic conditions. Hlaváček & Janáček (2019) examined their impact in the Czech Republic, concluding that incentives influence firm location decisions, albeit with uneven geographical outcomes. Táncošová (2019) highlighted the persistent issue of disproportionate investment in already strong regions.

Fabuš & Csabay (2018) still regard incentives as a necessary means for job creation. However, Bolcha & Zemplinerová (2012) pointed to their low efficiency, and Dinga (2011) found that despite more incentives being allocated to high-unemployment districts, their actual impact was marginal. Viturka (2007) noted the strongest benefit of investment incentives lies in employment growth, especially when linked to job creation conditions.

Blaschke (2022) concluded that the influence of incentives on economic development is positive, though not statistically significant. Johnson & Toledano (2022) emphasized the difficulty in quantifying their economic effects. Yanikkaya & Karaboga (2017) even found negative macroeconomic implications. Yet, the positive impact on employment has been affirmed by Schalk & Untiedt (2000) which confirm incentives' role in supporting underdeveloped regions through foreign investment.

Schwarz et al. (2007) determined that the maturity of a region does not significantly influence the distribution of incentives, indicating a lack of targeted support for less developed areas. Moreover, the volume of incentives often does not match the number of jobs promised. This suggests that incentives tend to support specific economic segments rather than driving comprehensive regional development.

Many studies argue that incentives have limited influence on location decisions, particularly when investment environments are unattractive. The World Bank's investment climate surveys show that investors rarely rank incentives among their top decision-making factors (Jensen, 2018; Johnson, Toledano, 2022). Similar conclusions were drawn by Antaloczy & Sass (2001), Bevan & Estrin (2000), and others. Morisset (2003), studying investment promotion agencies, even found that incentives can sometimes have negative consequences in transitional and developing countries.

3. METHODOLOGY

This study analyzes investment incentives at the territorial level, focusing on the districts and regions of NUTS III in the Czech Republic. Prague was excluded from the dataset due to its unique economic structure, which significantly differs from other regions. The dataset comprises information on regions that received investment incentives between 2000 and 2022, including the number of supported projects and the number of newly created jobs. These data were sourced from project databases maintained by the Ministry of Industry and Trade of the Czech Republic, in collaboration with the Agency for Business and Investment Support – CzechInvest. These variables represent the independent factors in the analysis. For dependent variables, macroeconomic data at the regional level were obtained from the Czech Statistical Office. The primary statistical method employed was correlation analysis to examine the relationships between investment incentives and unemployment trends. Correlation analysis is a statistical technique used to assess the strength and direction of the relationship between variables. In this study, we performed a correlation analysis to identify the degree of association between unemployment (U) and Job created (J). To determine the strength and direction of the relationships, we used the Pearson correlation coefficient, which ranges from -1 to 1. A coefficient close to 1 indicates a strong positive relationship, while a value close to -1 suggests a strong negative relationship. A value around 0 suggests no linear correlation.

The study aimed to answer the central research question: *Does the development of unemployment depend on the number of newly created jobs?*

In order to investigate this question, the following hypotheses were tested:

H1: An increase in the number of newly created jobs leads to a decrease in the unemployment rate.

The findings of this study contribute to understanding the impact of investment incentives on regional labor markets, providing valuable insights for policymakers and economic strategists.

4. RESULTS

The data presented in the table (Table 1) reveals regional variations in the number of new jobs created and unemployment rates across different regions. Central Bohemia leads with the highest number of new jobs created (7,904) and maintains a relatively low unemployment rate of 4%. South Bohemia, while contributing fewer jobs (2,224), shares the same unemployment rate of 4%. On the other hand, regions such as Ústí and Moravia--Silesia experience both high unemployment rates (9.1%) and significant job creation (6,502 and 9,524, respectively), indicating potential challenges in job absorption despite the creation of employment opportunities. Karlovy Vary stands out with the highest unemployment rate (7.5%) despite having only 819 new jobs created, suggesting

difficulties in the region's labor market. Most regions have an unemployment rate below 5%, reflecting overall positive employment trends, with the exception of some regions like Ústí, Olomouc, and MoraviaSilesia, where higher unemployment levels persist. This regional disparity in both job creation and unemployment rates indicates a need for targeted interventions to address labor market challenges in certain areas.

Table 1. New Job Creation and Labor Market Dynamics

	NEW JOBS CREATED	UNEMPLOYMENT RATE (%)
CENTRAL BOHEMIA	7904	4.0
SOUTH BOHEMIA	2224	4.0
PLZEŇ	6576	4.2
KARLOVY VARY	819	7.5
ÚSTÍ	6502	9.1
LIBEREC	3482	5.5
HRADEC KRÁLOVÉ	7356	4.9
PARDUBICE	6133	5.1
VYSOČINA	4742	4.7
SOUTH MORAVIA	4576	5.8
OLOMOUC	4500	7.0
ZLÍN	3283	5.7
MORAVIA-SILESIA	9524	9.1

Source: Own processing based on data from CzechInvest and the Czech Statistical Office.

The graph (Figure 1) illustrates significant fluctuations and regional variation in job creation across the Czech Republic from 2000 to 2022. There is a notable peak in job creation in 2014, particularly in regions like Central Bohemia and Moravia-Silesia, while other regions show comparatively lower levels. The overall trend indicates lower job creation in the early 2000s, a rise and peak around 2014, and a decline in recent years, possibly influenced by economic events such as the 2008 financial crisis and the COVID-19 pandemic. This pattern highlights the uneven impact of factors influencing job creation and suggests the need for policies that address regional disparities and promote economic resilience.

The analysis reveals a complex and geographically varied relationship between unemployment rates and the creation of new jobs across the regions (Table 2). Overall, when considering all regions together, there is a moderately strong positive correlation (0.6126). In the Karlovy Vary region (0.7286) shows a very strong positive link. Moderate positive correlations also exist in Central Bohemia (0.2342) and Hradec Králové (0.2046**)**. Conversely, many regions, including South Bohemia, Liberec, Pardubice, Vysočina, South Moravia, Olomouc, and Zlín, show virtually no linear relationship (coefficients near zero), indicating that changes in unemployment and new job creation are largely independent there. The Ústí region (-0.1805) displays a weak negative correlation, aligning slightly more with the conventional expectation that higher unemployment might correspond with

fewer new job openings, though the link is tenuous. This highlights that the dynamic between job losses/unemployment and job creation is not uniform and exhibits significant regional specificities, with some areas possibly experiencing economic restructuring where job losses and gains occur concurrently.

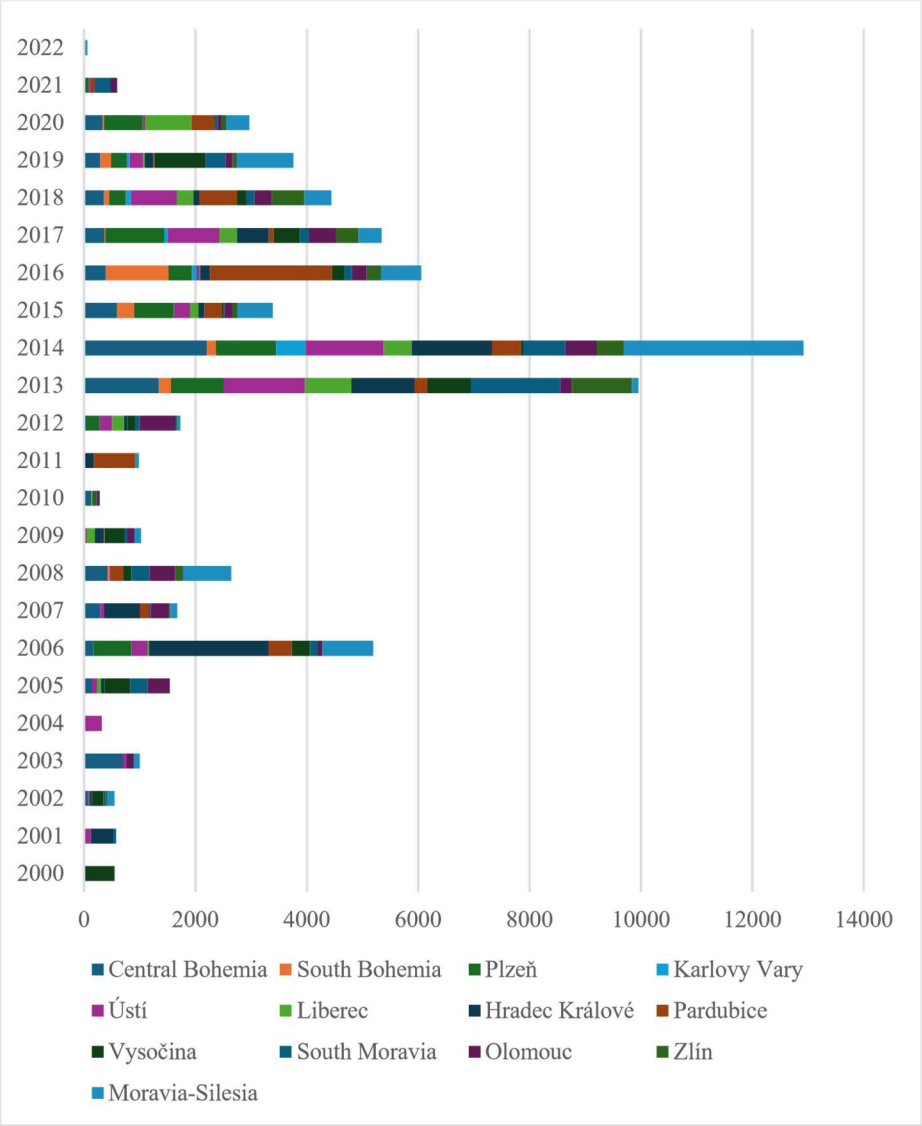

Figure 1. Jobs created from 2000 to 2022

Source: Own processing based on data from CzechInvest.

Table 2. Correlation Analysis of Unemployment rate and Newly Created Jobs

REGION	CORRELATION COEFFICIENTS
CENTRAL BOHEMIA	0.2342
SOUTH BOHEMIA	-0.0144
PLZEŇ	-0.1099
KARLOVY VARY	0.7286
ÚSTÍ	-0.1805
LIBEREC	-0.0424
HRADEC KRÁLOVÉ	0.2046
PARDUBICE	-0.0253
VYSOČINA	-0.0396
SOUTH MORAVIA	0.0833
OLOMOUC	0.0649
ZLÍN	-0.0332
MORAVIA-SILESIA	-0.0819
ALL REGIONS	0.6126

Source: Own processing.

5. DISCUSSION

The results of this study underscore the regional disparities in the relationship between job creation and unemployment rates across the Czech Republic. While the general expectation is that an increase in newly created jobs should lead to a decrease in unemployment, the findings reveal a more nuanced and region-specific dynamic. Central Bohemia, which has the highest number of newly created jobs, maintains a relatively low unemployment rate, supporting the hypothesis that job creation contributes to employment growth. However, the situation in Moravia-Silesia and Ústí presents a more complex picture. Despite high numbers of newly created jobs, these regions continue to experience elevated unemployment rates, suggesting that job absorption in these areas may be hindered by structural economic factors such as skill mismatches, industrial decline, or demographic challenges. The Karlovy Vary region, in particular, stands out with a significantly high unemployment rate despite a low number of newly created jobs, indicating deeper labor market issues that require targeted policy interventions.

The correlation analysis further supports the notion that the relationship between job creation and unemployment is not uniform across regions. At a broad level, regions with more job creation tend to have higher unemployment, potentially reflecting economic restructuring rather than a straightforward causal link. The strong positive correlation in Karlovy Vary suggests that new jobs have not significantly reduced unemployment, possibly due to local labor market inefficiencies or a higher prevalence of long-term unemployment. Conversely, some regions such as South Bohemia, Liberec, and South Moravia exhibit little to no correlation, implying that job creation and unemployment trends operate independently in these areas. This could be due to factors such as labor mobility, commuting patterns, or variations in local economic structures. The Ústí region

shows a weak negative correlation, aligning slightly with conventional economic theory, suggesting that in this area, job creation may have a small but discernible effect on reducing unemployment.

Overall, the findings suggest that while investment incentives play a role in job creation, their effectiveness in reducing unemployment varies significantly by region. This underscores the importance of region-specific policies that address local economic structures, workforce skills, and industrial composition rather than a one-size-fits-all approach. Future research should further explore causal relationships by incorporating additional economic indicators, labor market mobility data, and qualitative insights from policymakers and businesses.

6. CONCLUSSION

This study highlights the complex and regionally diverse relationship between job creation and unemployment in the Czech Republic. While investment incentives have contributed to employment growth in some regions, their impact on reducing unemployment is inconsistent. Structural factors such as industrial composition, workforce mobility, and skill mismatches play a crucial role in shaping these dynamics. The findings indicate that policies aimed at reducing unemployment should not rely solely on job creation initiatives but should also address underlying labor market challenges unique to each region. In areas where job creation does not correspond to lower unemployment, targeted strategies such as workforce training, education reforms, and infrastructure improvements may be necessary to enhance labor market efficiency.

Our findings align with previous research (Damborský, 2023; Yanikkaya, Karaboga, 2017), which also highlighted the limited efficiency of investment incentives in reducing unemployment in targeted regions. The study by Damborský (2023) particularly supports the argument that the current system of investment incentives in the Czech Republic does not sufficiently protect or uplift economically weaker regions.

Ultimately, a more tailored approach to investment incentives and employment policies is needed to ensure balanced economic development across all regions. Future studies should incorporate additional socioeconomic variables and longitudinal data to provide a deeper understanding of the causal mechanisms behind these trends.

REFERENCES

Antaloczy, K., Sass, M. (2001). Greenfield investments in Hungary: are they different from privatization FDI? *Transnational corporations*, *10*(3), 39–59. Retrieved from: https://www.researchgate.net/publication/292780635_Greenfield_investments_in_Hungary_are_they_different_from_privatization_FDI, 05.10.2024.

Belkhodja, O., Mohiuddin, M., Karuranga, E. (2017). The determinants of FDI location choice in China: A discrete-choice analysis. *Applied Economics*, *49*, 1241–1254. Retrieved from: https://www.researchgate.net/publication/293793039_The_determinants_of_FDI_location_choice_in_China_a_discrete-choice_analysis, 05.10.2024.

Bevan, A. Estrin, S. (2000). *The Determinants of Foreign Direct Investment in Transition Economies*. William Davidson Institute Working Paper 342, London Business School. Retrieved from: https://deepblue.lib.umich.edu/bitstream/handle/2027.42/39726/wp342.pdf?sequence=3&isAllowed=y, 06.10.2024.

Bilan, Y., Vasylieva, T., Lyeonov, S., Tiutiunyk, I. (2019). Shadow economy and its impact on demand at the investment market of the country. *Entrepreneurial Business and Economics Review*, *7*, 27–43. https://doi.org/10.15678/EBER.2019.070202

Blaschke, P. (2022). Investment Incentives in the Environment of the Czech Republic. *E&M Economics and Management*, *25*(1), 4–23. https://doi.org/10.15240/tul/001/2022-1-001

Bobenič Hintošová, A., Sudzina, F., Barlašová, T. (2021). *Direct and Indirect Effects of Investment Incentives in Slovakia. J. Risk Financial Manag. 14*, 56. https://doi.org/10.3390/jrfm14020056

Bolcha, P., Zemplinerová, A. (2012). Dopad investičních pobídek na objem investic v České Republice. *Politická ekonomie, 60*, 81–100. https://doi.org/10.18267/j.polek.833

Cedidlova, M. (2013). The Effectiveness of Investment Incentives in Certain Foreign Companies Operating in the Czech Republic. *Journal of Competitiveness, 5*(1), 108–120. https:/doi.org/10.7441/joc.2013.01.08

CzechInvest. AVAILABLE ONLINE. https://www.czechinvest.org/en/For-Investors/Investment-Incentives

Damborský, M. (2023). Regional Unemployment and Investment Incentives in Czechia. *Geographical Journal 75*(2), 107–124. https://doi.org/10.31577/geogrcas.2023.75.2.06

Dinga, M. (2011). The Role of investment incentives in regional FDI reallocation: A regression-discontinuity approach. *CERGE-EI Working Paper Series, 438*, 1–42. Retrieved from: https://www.cerge-ei.cz/pdf/wp/Wp438.pdf, 08.10.2024

Fabuš, M., Csabay, M. (2018). State aid and investment: Case of Slovakia. *Entrepreneurship and Sustainabilit, 6*, 480–488. Retrieved from: https://www.researchgate.net/publication/329712563_State_aid_and_investment_Case_of_Slovakia, 09.10.2024.

Garibaldi, P., Mora, N., Sahay, R., Zettelmeyer, J. (2001). What moves capital to transition economies. *IMF staff papers, 48*, Special Issue. Washington, DC: IMF, 109–145. https://doi.org/10.5089/9781451848571.001

Chanegriha, M., Stewart, Ch., Tsoukis, Ch. (2017). Identifying the robust economic, geographical and political determinants of FDI: An extreme bounds analysis. *Empirical Economics, 52*, 759–776. https://doi.org/10.1007/s00181-016-1097-1

Hlaváček, P., Janáček, J. (2019). The Influence of Foreign Direct Investment and Public Incentives on the Socio-Economic Development of Regions: An Empirical Study from the Czech Republic. *E&M Economics and Management, 22*(3), 4–19. https://doi.org/10.15240/tul/001/2019-3-001

Jensen, J. D. (2018). Employee Motivation: A Leadership Imperative. *International Journal of Business Administration, 9*(2). https://doi.org/10.5430/ijba.v9n2p93

Johnson, L., Toledano, P. (2022). *Investment Incentives: A Survey of Policies and Approaches for Sustainable Investment*. Columbia Center on Sustainable Investment, October 2022. Retrived from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4323885, 8.10.2024.

Morriset, J. 2003. *Does a country need a promotion agency to attract foreign direct investment? A small analytical model applied to 58 countries.* World Bank Policy research working paper, 3028. Washington, DC: World Bank, FIAS. Retrieved from: https://www.researchgate.net/publication/23722738_Does_a_country_need_a_promotion_agency_to_attract_foreign_direct_investment_A_small_analytical_model_applied_to_58_countries, 08.10.2024.

Musil, P., Hedija, V. (2020). Investment incentives as instrument of motivation of firms and economic stabilisation. *Entrepreneurship and Sustainability, 8*, 578–589. https://doi.org/10.9770/jesi.2020.8.2(35)

Schalk, H. J., Untiedt, G. (2000). Regional investment incentives in Germany: Im pacts on factor demand and growth. *The Annals of Regional Science*, *34*, 173–195. https://doi.org/10.1007/s001689900008

Schwarz, J., Bartoň, P., Bolcha, P., Heřmanský, P., Mach, P. (2007). *Analýza investičních pobídek v České republice [Analysis of investment incentives in the Czech Republic]*. Prague University of Economics and Business. Retrieved from: https://mpo.gov.cz/assets/dokumenty/32013/35445/388865/priloha001.pdf, 09.10.2024.

Táncošová, J. (2019). The role of foreign direct investment in the economy of Slovakia. *Entrepreneurship and Sustainability*, *6*, 2127–2135. https://doi.org/10.9770/jesi.2019.6.4(40)

Viturka, M. (2007). *Regionální ekonomie a politika II [Regional economics and politics II]*. Brno: Masaryk University. Retrieved from: https://is.muni.cz/el/econ/jaro2007/PRREII/REIIDOS-defA.pdf, 09.10.2024.

Yanikkaya, H., Karaboga, H. (2017). The Effectiveness of Investment Incentives in the Turkish Manufacturing Industry. *Prague Economic Papers*, *26*(6), 744–760. https://doi.org/10.18267/j.pep.641