

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

CZECH REPUBLIC



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"WAGE COSTS ARE INCREASING NOTICEABLY AND STEADILY"

What impact does the Czech Republic have on the German economy?

The Czech Republic's impact on the German economy is grossly understated. This could be for a number of reasons, amongst which are the lack of relevant media coverage, and preference being given to the supposedly more "exotic" countries such as Russia, China, Iran, or South America.

In the end, many tend to forget that the Czech Republic plays a significant role in the development of the German economy. The country is Germany's tenth most important foreign trade partner, with a new foreign trade record of 113 billion euros in 2022. This number becomes even more impressive when compared to the foreign trade with other countries. For example, it corresponds to about half of the trade volume between Germany and the USA. Currently, more than 4,000 German companies are active in the Czech Republic. All sectors are represented, and many companies produce here. Seen initially as an outsourcing hub, today, the Czech Republic's economy has grown significantly in part, due to its economic relations with Germany. With the exception of the COVID-19 year 2020, the Czech economy has been steadily improving.

What impact did the outcome of the presidential elections in January have on the economy?

The outcome of the presidential elections has had a significant positive influence. A new government has been formed, since the former president could no longer run, due to term limits. Things had reached a certain level of stagnation under Andrej Babiš. Now, Petr Fiala, with his five-party alliance, is putting more emphasis on economic liberalism. Petr Pavel is the new person at the Prague Castle, and he is a very "western-oriented" president who pursues a clearly pro-European policy. This is beneficial for the economy and German companies because trust in politics has increased again.

How did the Russian attack on Ukraine affect the Czech Republic?

The consequences were similar to many other countries. Inflation has also risen sharply due to higher energy prices. However, the Czech Republic is now completely independent of Russian gas, as a significant amount of Dutch LNG gas is being supplied to the country through the energy partnership with Germany. Czech Republic, with its 10.8 million inhabitants, has taken in about 500,000 Ukrainian refugees, which is a significant number in proportion. Many of them are still in the country, and some have integrated into the labor market. The war refugees were generally not seen as a problem, and were received with great solidarity.



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What is the situation regarding energy supply in the Czech Republic?

The immediate danger of shortages has not yet been averted, but the prices for gas, gasoline, and fuels are at least no longer rising. There is also a price cap that applies to businesses and the population. The Czech Republic also relies heavily on nuclear energy, which is considered a green technology here. It remains to be seen how the situation will develop next winter.

What challenges do companies in the Czech Republic face?

One clear drawback is the lack of dual vocational training, which is often criticized by the business community. According to statements from Czech politicians, unfortunately, this will not change. With a nationwide unemployment rate of 3.2 percent, the Czech Republic has the lowest unemployment rate in the European Union. Hence the labour shortage extends beyond skilled workers, to all types of personnel in general. This problem is viewed as the biggest investment obstacle. Although wage costs are still below the German level, they are increasing noticeably and steadily. Retaining employees is also challenging. It is not just about money; many companies offer various benefits, such as subsidies for retirement savings and life insurance.

How do you see the prospects for German-Czech economic relations?

The Czech Republic is and remains a very attractive country for the German economy. In addition to the many location advantages, this is also due to the fact that it is located in the very heart of Europe and is close to Germany. Economic interdependence will certainly continue to intensify, even though many German companies are already active in the Czech Republic, and industrial areas are gradually becoming scarce. The nearshoring trend - the endeavor of many companies to reduce dependencies on Asia - has further fueled interest in the Czech Republic. The Czech Republic continues to be a good location for building production capacities "at the doorstep".

"I HAVE A LONG CANDIDATE BLACKLIST"

What makes the Czech labor market special?

The labor market is extremely dynamic, and there are currently many new developments. Due to the high budget deficit and record debt, many proposals are being discussed in politics to increase state revenues. Some of these proposals also affect the labor market. We have to wait and see which proposals will ultimately prevail and what impact they will have on employees and companies. The costs for companies will certainly increase, also, due to the high inflation, which was over 15 percent last year.

However, the defining factor is the labor shortage. With a nationwide unemployment rate of 3.7 percent - in Prague it is 2 percent - employees have a very strong negotiating position. Companies of all kinds have a shortage of labor, not only skilled employees. Some companies have to reject orders because they cannot find personnel to carry out the projects. Many firms are struggling with salary increases and various benefits to retain their workforce. Many of these benefits have been tax-free so far, we will see if that changes.

The demand is particularly high in the IT sector, as well as for specialists and executives with language skills. The multitude of offers for this group significantly complicates recruitment.

How difficult is it to find the right candidates in the Czech market?

Of course, it strongly depends on the position to be filled. However, in general, I can say that it is very difficult in the field of skilled workers. This is especially true for more remote areas without good infrastructure. Many candidates are inflexible and not willing to relocate, even if there are welcome bonuses or relocation packages.

Slovak skilled workers, who used to be widespread in the Czech Republic, are now hardly coming here anymore. Salaries in Slovakia have now reached Czech levels in many places, so the incentive is not as great anymore.

Before the war, many Ukrainians worked in the Czech Republic, especially as unskilled workers in the construction and hospitality industries. Their departure after the outbreak of the war has severely affected many industries, especially, the construction sector. The refugees are mostly women, many of whom have successfully integrated into the labor market, mostly as assistants.

What is the image of German companies in the Czech Republic?

German and Austrian companies enjoy a good reputation in the Czech Republic. Many candidates are highly interested in these firms. However, German-speaking



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candidates are much harder to find nowadays, as English is more widely used in the business world. Most companies have adapted and therefore accept candidates with English language skills. Nowadays, English language skills are often considered a prerequisite, and additional knowledge of German is seen as an advantage.

What motivates Czech candidates to make a switch?

This question cannot be answered in a general way, as "Czech candidates" do not represent a homogeneous group. Some candidates like to switch frequently - in the worst case, to grab welcome bonuses and leave the company shortly after.

Uncertainties in the current company are often a reason for a job change, whether due to management changes or the employer's financial problems. There is also often a desire for higher salary prospects. Especially in times of high inflation and declining real incomes, this issue has become more important.

Others strive for more flexibility, whether through hybrid work models or the ability to work from home. An increasing number of candidates also complain about excessive workloads. Companies that cannot hire enough employees often distribute the workload on fewer shoulders.

What would you recommend to a foreign company looking to recruit a managing director in the Czech Republic?

Be careful! Candidates for managing director positions can often present themselves well. However, there are also impostors and deceivers in the market. Therefore, I strongly recommend thoroughly verifying the information provided.

ANALYSIS

UPDATES ON FOREIGNERS' LAW IN THE CZECH REPUBLIC

The Czech foreigners' law remains fragmented and is regulated by the Asylum Act (Act No. 325/1999 Coll.) and the Act on Foreigners (Act No. 326/1999 Coll.). The latter applies to non-EU foreigners (see the ambiguous § 1 (2) of the Act on Foreigners), including unfortunate British citizens after Brexit, as well as EU, EEA, and Swiss citizens.

EU citizens and British citizens who already had a residence permit in the Czech Republic by the end of 2020 can stay in the country without a residence permit. Family members of EU citizens (including British citizens and EEA and Swiss citizens) can obtain a residence permit relatively easily. The provisions for stateless individuals were included in § 170d of the Act on Foreigners in 2021.



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However, experts believe that these provisions are unsystematic and woefully inadequate, as they were supposed to implement the 1954 and 1961 UN conventions but fail to reference them. This is an example of insufficient implementation in Czech law.

Lex Ukraina – since March 2022

Since last year, the provisions of the so-called "Lex Ukraina" (Act No. 65/2022 Coll.) have also been in effect, which can be regarded more as "Lex Anti-Ukraina." The regulations intended to address the situation of Ukrainian refugees largely contradict European law, specifically the Mass influx of displaced persons Directive No. 2001/55/EC, EU Decision 2022/382 of March 4, 2022, and Czech Act No. 221/2003 Coll., which implemented the 2001 directive at that time. Not to mention the contradictions with the Czech Constitution (e.g., the exclusion of the right to file lawsuits for Ukrainian refugees according to § 5 (2) of Lex Ukraina).

In § 4 of Lex Ukraina elegantly excludes the application of the EU directive and the implementing Czech Act No. 221/2003 Coll. This is a poor joke in terms of implementing EU law, with serious consequences for Ukrainian refugees, such as family reunification or issuing travel documents for Ukrainians without documentation. The biggest unresolved issue is the distribution of refugees within the EU and the question of secondary migration of Ukrainian refugees, meaning when Ukrainians with temporary protection in, for example, Poland or Germany want to move to the Czech Republic – both options are excluded. Only the European legislator is capable of setting definitive rules in this regard.

Although the Czech Republic surprisingly has a relatively good reputation within the EU regarding the treatment of Ukrainians, similar to Denmark, which did not support EU Decision 2022/382 of March 4, 2022, in any way and is considered a kind of "shithole state" in terms of immigration law for Ukrainian refugees in the EU, many areas, including Acts No. 66/2022 and No. 67/2022 Coll. related to Lex Ukraina and addressing social and educational issues, fail to fully implement European regulations in the Czech Republic. The Czech Republic's good reputation mainly exists among those who lack experience or a comprehensive understanding of concrete work in refugee assistance. Nonetheless, nearly half a million Ukrainian refugees have found refuge in the Czech Republic and generally feel comfortable there.

Vander Elst visa for Ukrainian refugees with temporary protection in the EU

Regarding the employment of Ukrainian refugees in other EU countries, especially, in Germany, one question has been clarified: If a Czech company wishes to deploy its third-country national employees who have a residence and work permit in the Czech Republic to Germany, Ukrainian refugees with temporary protection can also benefit from the Vander Elst scheme according to EU Decision No. 2022/382 of March 4, 2022. This means that such a visa can be issued to Ukrainian refugees by the German Embassy in Prague.

Quotas for third-country nationals have been too small for years

Ukrainians have been excluded from the quota for employing third-country nationals since they already have a work permit as refugees with temporary protection. However, even before March 2022, the quota for Ukrainians fell far short of the demand for qualified labor in the Czech Republic.

Initially, the quota for 2022 was set at around 40,000 individuals according to Government Regulation No. 220/2019, as amended by Regulation No. 322/2022. According to EU rules, nearly half a million Ukrainians have come to the Czech Republic; however, approximately 80% of them are women and children, hence, not necessarily skilled workers.

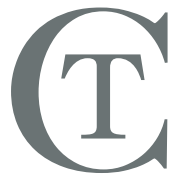
The quotas for other countries such as Kazakhstan, Mongolia, India, and the Philippines have been far too small in recent years. For example, the quota for Kazakhstan in 2022/2023 was 1,120 individuals, 2,290 for Mongolia, 2,220 for India, and 4,900 for the Philippines.

This quota system is by no means fulfilling its purpose, as the demand for labor in the Czech Republic far exceeds the quotas allowing the entry of foreigners. The second-largest group of foreign workers in the Czech Republic consists of Slovaks (approximately 250,000 individuals), who, like the 50,000 Poles and Hungarians, fall under EU freedom of movement rules for workers.

The Czech system for employing third-country nationals is highly bureaucratic and inflexible. In particular, the embassies of the Czech Republic and the foreign police are overwhelmed, whereas the influx of Ukrainian refugees since February 2022 has been surprisingly well managed by the same administration, the OAMP of the Ministry of the Interior.

The Kafka trap

In general, one must tackle significant challenges in the Czech Republic. The infamous Kafka trap, where individuals are sent from one authority to another, only to end up back at the first one, is well-known. In general, one should expect longer waiting times when dealing with matters at the foreign police. It is particularly recommended to bring suitable reading material, such as Czech and European foreigners' laws, as well as literature like Franz Kafka's "The Trial" or "The Castle," to endure the waiting time and better understand the procedures.



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