

# »» Labour market in the Czech Republic sets standards

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The Czech Republic is currently the EU country with the lowest unemployment rate, overtaking even Germany. Unemployment currently oscillates around the near full-employment rate of 3.5 per cent, and the share of job vacancies is also on a top level for Europe. Demand for workers increased so sharply of late that the labour shortage is increasingly developing into a veritable obstacle to growth. What are the reasons for the exceptionally good performance of the Czech labour market? Ultimately, several factors complement each other, enabling high levels of employment in our neighbouring country.

## The labour market benefits from strong economic growth

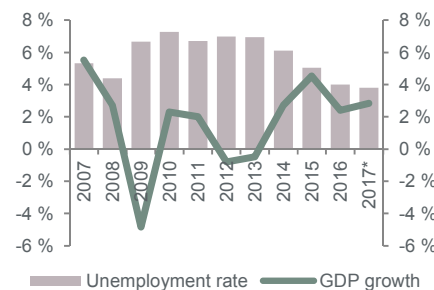
After the Czech Republic overcame the mild recession of the two preceding years in 2014 and the economy gathered momentum, the unemployment rate quickly dropped from nearly 7% to roughly 4% in 2016. The Czech labour market was already remarkably robust even in the severe recession of 2009 (see Figure). In neighbouring Slovakia, for example, unemployment rose well into the double digits in the crisis years 2009 (12.1%) and 2010 (14.5%). The Czech Republic's more favourable development, which is also reflected in a significantly higher employment rate, has fundamental causes.

## Competitive economy builds on highly skilled workers

Documented by impressive export dynamism, the Czech Republic has achieved remarkable competitiveness in the past years. Important aspects of this positive development are a comparatively high level of public expenditure on research and development, which has doubled in the past 15 years, the initiated modernisation of infrastructure, also supported by EU structural funds, an investment climate marked by openness and security, productivity-oriented wage development, and healthy public budgets. Another key success factor is an effective

basic education system. The share of 25 to 64-year-olds who have completed at least upper secondary education is 93% (OECD average: 76%) – a very high share of the workforce therefore has good prospects for entering the labour market smoothly.

Figure: Czech Republic – unemployment rate from 2007 to 2017



Source: IMF

## Booming manufacturing sector absorbs workers

The good investment climate has made the Czech Republic attractive for foreign direct investment. This is particularly true for enterprises in the automotive and engineering industry, as well as electronics, aeronautics and space technology. The share of manufacturing in gross value added has also risen sharply as a result in the past years, growing to 27% in 2016 from 23% in 2010. This is a peak level by EU standards. The export-driven manufacturing sector has thus absorbed a large number of workers from unemployment and the hidden reserve.

## Weak koruna

At the end of 2013, the Czech Central Bank ČNB set a minimum exchange rate of CZK 27 per euro. The main goal was to lift inflation, which was too low because of the drop in fuel and energy costs. The devaluation was an additional benefit to the country's dynamic export industry. However, with the skills shortage becoming increasingly widespread at all levels of qualification, businesses are holding off orders and postponing capital expenditure more frequently (encouraging

labour migration more effectively and raising the labour participation rate of women might ease the situation).

## Will the top labour market score last?

The floating of the koruna in April and the resulting appreciation may put a slight dampener on the export boom. Nevertheless, the significant recent increases in real wages should provide new cyclical impetus, so the labour market should remain intact. According to government calculations, as many as an additional 100,000 persons might even find a job by 2020. The OECD has advised the Czech Republic to continue stepping up productivity to gradually catch up with Western European wage levels. The efforts currently being undertaken by the government to speed up digitalisation, the significantly stronger promotion of leading-edge research and considerations on more innovation-related promotion of foreign investment are steps in this direction.

## Can the Czech Republic's approach be generalised?

The dynamism of the Czech labour market is essentially driven by the country's specific economic structure, combining a strong industrial basis with supportive pro-growth policies. The Czech economy does not exhibit any pronounced weaknesses in relevant areas and economic policy decisions are mindful of future challenges. What is more, the Czech Republic has succeeded very well in harnessing the benefits of European integration. All of these approaches could be starting points for other reform countries in Central and Eastern Europe to lift their game as well. ■