

**MUTUAL LEARNING PROGRAMME:  
PEER COUNTRY COMMENTS PAPER - CZECH REPUBLIC**

**Economic crisis and the Czech labour market:  
the story of waiting for Godot**

Peer Review on “Employment measures to tackle the economic downturn: Short time working arrangements / partial activity schemes”

France, 27 - 28 September 2010

A paper submitted by Jaromír Gottvald

in consortium with GHK Consulting Ltd and CERGE-EI

*Date: 14/09/10*



*This publication is supported for under the European Community Programme for Employment and Social Solidarity (2007-2013). This programme is managed by the Directorate-General for Employment, Social Affairs and Equal Opportunities of the European Commission. It was established to financially support the implementation of the objectives of the European Union in the employment and social affairs area, as set out in the Social Agenda, and thereby contribute to the achievement of the Lisbon Strategy goals in these fields.*

*The seven-year Programme targets all stakeholders who can help shape the development of appropriate and effective employment and social legislation and policies, across the EU-27, EFTA-EEA and EU candidate and pre-candidate countries.*

*PROGRESS mission is to strengthen the EU contribution in support of Member States' commitments and efforts to create more and better jobs and to build a more cohesive society. To that effect, PROGRESS will be instrumental in:*

- *providing analysis and policy advice on PROGRESS policy areas;*
- *monitoring and reporting on the implementation of EU legislation and policies in PROGRESS policy areas;*
- *promoting policy transfer, learning and support among Member States on EU objectives and priorities; and*
- *relaying the views of the stakeholders and society at large*

*For more information see:*

<http://ec.europa.eu/social/main.jsp?catId=327&langId=en>

*The information contained in this publication does not necessarily reflect the position or opinion of the European Commission.*

## CONTENTS

1	LABOUR MARKET SITUATION IN THE PEER COUNTRY.....	4
2	ASSESSMENT OF THE POLICY MEASURE.....	5
3	ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY.....	8
4	QUESTIONS.....	8
	ANNEX 1: SUMMARY TABLE.....	9

## 1 LABOUR MARKET SITUATION IN THE PEER COUNTRY<sup>1</sup>

*This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on the Czech Republic's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.*

The economic crisis has rapidly and significantly impacted the Czech economy in the form of declining demand for Czech goods. The rapid nature of the transition from economic growth at a rate of 6.5% of the actual GDP in the year 2006 to a decline of 4.5% in 2009, has also led to extremely dramatic changes in the development of unemployment. The situation has gradually calmed down with a return to decent economic growth starting in the second half of 2009. This growth remains fragile and uncertain. Although a number of positive signals have emerged in the economy, a major risk of premature optimism remains. The most recent estimates of y-to-y GDP growth are at 2.2% for the 2nd quarter of 2010. The most significant growth has been attained in the processing industry as well as in the branches of transport and market services. This growth can surprisingly be attributed to the growth of the German economy in that year (growth of the GDP by 4.1% in the 2nd quarter) with this being the main export market for Czech industry.

The largest decline in employment between the years 2009 and 2008 was recorded in the processing industry (by 9.9%), within the automobile industry in particular with a decline of 14.2%. Average wages dropped in the processing industry while an increase occurred in the automobile industry as a result of redundancies, in particular, amongst less qualified employees with the lowest wages. A major decrease in employment could also be seen in services, for example, in administrative and support activities (a drop by 8%) and in finance and insurance (a drop by 4.8%). In contrast, certain branches saw a growth in employment. The largest rises appeared in the branches of information and communication activities (by 9.6%), construction (by 3.3%) or professional, scientific and technical activities (by 3.4%). 2009 and the beginning of 2010 have been characterised by a major drop in employment in the secondary sector partially compensated by a growth in services. Results for the 2nd quarter of 2010 indicate a halt in the trend of declining employment. Employment dropped by 1.2 percentage points in 2009 from 66.6% in 2008 for permanent working contracts and amongst self-employed. This consists of a logical impact from the world economic crisis on the Czech labour market. Employers were anticipating problems with possible redundancies by increasing the number of temporary working contracts by 4.6% between the years 2009 and 2008, in the case of men by 5% and with women by 1.4%. The same trend can be seen with employment on a part-time work contract which increased semi-annually by 11.3%, with men by 24% and with women by 6.9%.

The rate of registered unemployment in the Czech Republic still maintained its low level of 6.0% at the end of 2008 only to rise to 9.2% in 2009. Unemployment based on Labour Force Survey data reached 7.2% in the second quarter of 2010 having risen y-to-y by 0.8 percentage points, evidencing a similar development trend of both unemployment measures. The differences in the registered level of unemployment between regions with the lowest and the highest unemployment amounted to 8.2 and 9.9 percentage points at the end of 2008 and 2009. The impact of the financial crisis on the regions of the Czech Republic has been varied. Less significant difficulties have been seen in regions with traditionally high levels of unemployment (Karviná, Most). In contrast, the most significant difficulties for the labour market have been evidenced in regions which have had a medium or low level of unemployment prior to the onset of the economic crisis. This worsened situation is connected with the placement of direct foreign investment into these regions in

---

<sup>1</sup> With co-authors Natalie Uhrová and Lenka Janíková, Faculty of Economics, TU Ostrava.

recent years and the decline in exports of their products during the period of the crisis. Those regions which have not been as focused on exports of their production have been less affected by the financial crisis. Regions with traditionally higher levels of unemployment, however, still have a high level of unemployment along with a rise with the problem of long-term unemployment.

The growth in unemployment between the years 2008 and 2009 is of interest (data always valid through the 31<sup>st</sup> of December of the given year). The semi-annual growth in unemployment throughout the Czech Republic amounted to 53.06%, by 66.6% amongst men and 40.6% amongst women. Significant growth in unemployment came about amongst all groups of unemployed in accordance with education, despite the fact that the most significant growth came about amongst workers with vocational education with a school leaving exam (an overall growth of 77.3%, 60.5% amongst women, 93.6% amongst men), and workers with vocational education (62.7% overall, 45.2% amongst women, 77.5% amongst men). A significant growth in the number of unemployed also occurred amongst the university educated (57.5% overall, 52.6% women, 61.9% men). The decline in the number of vacancies over the same period from 91,189 to 30,927 has brought about an enormous growth in the number of unemployed per 1 vacant place, from 3.9 at the end of 2008 to 17.4 at the end of 2009.

The Czech Republic ranks amongst those countries with the largest average number of worked hours per week with as full-time working contract which amounted to 39.3 hours in the year 2008, with men working more hours per week (41.1) and women 36.6 hours.<sup>2</sup> A decrease in the number of worked hours per week to 38.4 came about in 2009 which indicates a reduction in overtime working and also a drop in standard working time. A larger decrease came about with men to 40.2 and with women to 35.8 hours. From the perspective of the branch structure of the economy, the most worked hours per week in the years 2008 and 2009 came about in construction (43.2 and 41.9 hours, resp.). In contrast, the least amount of worked hours per week was seen in the sector of education (33.1 and 33.0 hours, resp.).

## 2 ASSESSMENT OF THE POLICY MEASURE

The system of short time working arrangements (STWA) or partial unemployment in the Czech Republic, has been carried out in several forms. The first form is defined by law<sup>3</sup> as an obstacle on the employer's side when it cannot allot work to employees to full working hours per week due to a temporary decline in sales of its products or limited demand for its provided services. In this case, employers can cut wages by down to 60% of average earnings conditional on an agreement with trade union organisations. If a trade union organisation is not present, the employer can submit a proposal to the Public Employment Services office which then decides if there are sufficient conditions allowing for wage cuts. If approved, employees are granted wages not lower than 60% of previous average wages for a length of 1 year at a maximum. In case of an agreement with the unions, the duration of wage cuts can be open-ended. Although this law regulation has been valid since 2006, it was not used extensively before the crisis and even its use during the crisis was not substantial.

Školení je šance<sup>4</sup> (Training is a Chance), carried out within the framework of the European Social Fund project, is a programme introduced in Spring 2009 primarily to: develop levels of qualifications and competencies of employees, develop company systems of managing human resources, motivate employers to implement specialised training within the

---

<sup>2</sup> Czech Statistical Office data, LFS

<sup>3</sup> Paragraph 209 of law number 262/2006, Zákonník práce (the Labour Code), which defines the concept of partial unemployment.

<sup>4</sup> <http://www.esfcr.cz/file/7712/>

framework of the organisation and also to diminish the adverse impact of the crisis on employment. The activities of projects can contain both general and specific training of employees of companies in all branches of the national economy. 1803 applications were submitted to an amount of CZK 8.6 billion (€344 millions) overall, with the allocations for these applications amounting to only CZK 4.5 billion (€180 millions) which led to premature ending of the acceptance of applications in October 2009.

The programme Restart<sup>5</sup> (Restart), carried out within the framework of the European Social Fund project, is aimed at increasing the adaptability of employees threatened by unemployment and employers of restructured companies. The aim of the programme is the provision of a needed qualification structure for employees in restructured organisations to improve their working mobility (both in the actual company as well as on the labour market), improving care for employees who have difficulty finding their place in the labour market, new employment due to age or health reasons and preparation for new working positions including advising, re-qualification and specialised experience. The overall allocation for this programme amounts to CZK 700 million (€28 millions) (from March 2009 to December 2011). Companies based in the capital city Prague are not allowed to request support in either of these programmes. The above-listed programmes are designated for supporting companies during the crisis period, but are not directly linked with partial unemployment.

Another measure involves the possibility for registered unemployed to carry out work when receiving unemployment support or social support payments with, however, the monthly earnings not exceeding CZK 4,000 per/month (half of the minimum wage). This can involve work on the basis of a work contract or another agreement. This consists of so-called non-colliding employment with the condition being that the employment cannot interfere with the cooperation with the employment office when seeking out and accepting a new appropriate employment.

The most renowned form of a shortened working contract has been carried out within the framework of the European Social Fund project Vzdělávejte se! (Get Educated!). This project is designated for employers who have been forced to or will have to decrease the production of their products or the provision of their services as a result of the worldwide economic crisis. It has been carried out in two stages. The 1st stage began on the 23rd of March 2009 and ended at the end of June 2009 and the financial resources were supplied from another Operational programme<sup>6</sup>. The 2nd stage was initiated in the middle of July 2009 and is scheduled to finish in February 2011 with the financial resources drawn from the Operational programme<sup>7</sup>. The aim of this project is the maintenance of employment and creation of conditions for obtaining and perfecting specialised knowledge, skills and competencies for employees who due to limitations on production cannot be allotted work to a full extent by employers. Employers can consequently obtain financial resources for full or partial compensation of wages for employees for the period of their participation in training, payment for tuition, or compensation for costs emerging in connection with education.

Participants in the project and applicants for allowances can be corporate or individual bodies with employees. Participants in the project and applicants for allowances cannot be organisational elements of the state and state contribution organisations, agricultural companies, employers who receive contributions for the purpose of general education of their employees from the state budget, EU structural funds or from other programmes and projects of the EU, employers who have included employees from Prague branches in the education, employees of companies which are not national residents of the member states of the EU or who do not have permanent residence within the territory of the Czech Republic.

---

<sup>5</sup> <http://www.esfcr.cz/file/7366/>

<sup>6</sup> Operational programme Rozvoj lidských zdrojů (Development of Human Resources).

<sup>7</sup> Lidské zdroje a zaměstnanost (Human Resources and Employment).

CZK 500 million (€20 millions) has been allocated to the project in the first phase and CZK 2 billion in the second phase. In light of the fact that this does not involve mandatory allowances and due to the fact that the decision making and allocation of support is fully within the jurisdiction of the commission of the employment office, the ministry has established individual limits for the amounts. Maximum refundable wage within the project is CZK 24,000 (approx. € 1,000) per month and worker - if s/he participates in education for an entire month (the maximum amount is pro-rated in case of shorter durations). The maximum allocation from one employment office for one employer is CZK 500,000 (€20 thousands) per month and the period of validity of the agreement is 6 months maximum.

Contribution to compensation for education activities, with an amount of up to 10 participants, is imposed on hours of educational activity. If the number of participants is higher than 10, the price is set at an amount based on the number of participants and there is a limit for costs per hour. The focus of the course must be on general transferable education such as, for example, language courses with a specific focus, IT courses, soft skills, specialised education – welders, locksmiths, management skills.<sup>8</sup> Contribution to costs connected with education – in cases when the education takes place away from the site of the regular workplace of the employees, the employers are entitled to compensation for travel costs, meals and expenses for accommodation. Employees undergoing education may not be in a group of employees who are already in the lay-off notification period. On the contrary, employees employed for either a temporary or permanent period can participate.

The philosophy of the entire project, Get Educated, is that companies threatened by the economic crisis are offered assistance in two “packets”. The first packet contains subsidies for the education of employees who need to improve their specialised knowledge and skills in light of the fact that the economic crisis puts new higher demands on firms and companies particularly in terms of the quality of the labour force. The second packet contains wage subsidies for the period of their participation in the education courses.

Although the number of companies which submitted projects was large, not all of them met the requirements of the project. As of July 2009 (2nd stage) up to the end of May 2010 3,100 companies applied for grants and submitted 16,661 applications. Out of these, 13,255 applications were supported (79.6% success rate), which is an extremely high percentage and attests to the quality of the submitted projects or low quality of their evaluation given shortage of time. It should be mentioned, however, that the submissions of requests for the project was not particularly demanding in terms of administration. The execution of projects was monitored, however, and the final reports were extremely strict and were composed of three stages. After checking the formal aspects of the project (companies could supplement and repair formal mistakes, if possible) the first stage of the evaluation was judged in terms of the goal, the contribution, the extent of the education courses and their specialised focus; whether it was in line with the company's profile. The final step in the evaluation consisted of the specialised assessment of the sales problems of the company in relationship to the economic crisis and the situation in the regional labour market. The specialised commission of the job centre assessed whether there had been a genuine decline in the sales in the company, evidence of a drop in orders, threats to the company, whether they would have to make redundancies or restructure the production (services). Only at this point was the support for the company approved or denied.

In less than a year over the given period, 91,611 employees successfully completed the education out of the 138,386 involved employees which amounts to 66.2%. The reason for not completing training may have been, amongst other things, that the company could not change the employees involved in the application for the project, even if the situation had changed in the meanwhile and they needed to include somebody else. The expected interest, however, was nevertheless not demonstrated if one judges according to the use

<sup>8</sup> Source: [http://portal.mpsv.cz/sz/zamest/kestazeni/vzdelavejte\\_se/vzdelavejte\\_se\\_manual.doc](http://portal.mpsv.cz/sz/zamest/kestazeni/vzdelavejte_se/vzdelavejte_se_manual.doc)

made of the resources from the allocated amounts of CZK 2.0 billion (€80 millions) for the project Get Educated! in the second stage. CZK 723 million (€29 millions) cumulatively (36%) was used by the end of May in all, with approximately half of the money being used for the education courses and the second half for compensation of wages. CZK 250 million (€10 millions) (rough estimate) was invested during the months of June to August 2010 which amounts to the use of only about half of the overall allocated amounts, with the remaining to no longer be used by the end of the year. This can attest to the fact that Czech companies have not been as affected by the crisis and did not need massive overall assistance. More detailed evaluations of the success of this project by the Ministry of Labour and Social Affairs did not reveal the branches in which the companies were supported, which regions mainly made use of the resources or whether they consisted of small or large companies. We therefore created a survey in the district of Ostrava on the occasion of this peer review and asked companies in particular what their main reason was for involvement in the project Get Educated!. Only 1 company of 52 firms that responded (total 107 firms were incorporated to project, 55.8% of responded firms were from production branches including construction) in Ostrava revealed that they would have had to stop operation their activities if they had not been involved in the project (they would not have survived the crisis) and in addition only 9 companies would have had to make redundancies if they had not been included in the project. At the same time, the approximate number of those made redundant is only a small part of the overall number of employed in these companies (2%). The vast majority of the companies (78.8%) had the answer that the companies made use of the project for education activities and re-qualification of their employees in connection with the economic crisis and changes inside their companies. Ostrava is the centre of the strongly industrial Moravian-Silesian region with the percentage of employment of more than 40% in production branches including construction in a wide range of branches from mining of black coal to metallurgy to companies from the area of I.T.

### **3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY**

The French system of partial unemployment is extremely different from the Czech one. In light of the fact that there is no reliable data available, it is particularly difficult, however, to evaluate their successes and mutual transferability.

The first and relatively basic difference is that the Czech Republic introduced the concept of partial unemployment in 2006 in the Labour Code, while the concept was initiated in France as early as 1968 as part of the framework of the national tripartite agreement. It has been incorporated into French legislature for a long period of time and the system of partial unemployment has undergone a number of changes in particular under the influence of the economic crisis under the period of its existence. Partial unemployment was also implemented in the Czech Republic by means of the time defined project Get Educated!.

The French long lasting partial activity allowance (APLD) combines three types of partial activities at three levels of compensation with new measures during the period of the economic crisis which expand compensation for all branches and for all groups of employees. The replacement level paid by employer is at present 75% of the gross hourly wage in France, while in the case of APLD, however, at the minimal amount of the legal minimum wage (in 2010 6.96 EUR/hour) although companies may only request part of the costs connected with compensation of wages from the state. In the Czech Republic this amounts to a fixed 60% of the average gross earnings, minimally, however, in the amount of the legal minimum wage paid by the employer in accordance with the Labour Code. The employer is, however, eligible to compensation from the state. The Czech system allows for

drawing compensation for wages for employees involved in education up to 100% of the costs invested by the company into covering partial unemployment (with wages to a maximum of CZK 24,000/month). These costs include revenues for education or accompanying activities, without regards to the size of the company which applies to the Get Educated! programme. The system essentially differs in this manner with the maximum period also being different. In France, the period is a minimum of 3 months and a maximum of 12 months, in the Czech Republic it is a maximum of 6 months, however, the company may apply repeatedly.

The above-mentioned information indicates that the French system does not oblige the employer to make provisions for employee's education in order to obtain state support as is the case in the Czech Republic. The evaluation of applications for support for education in the Czech Republic is extremely strict and is followed by a thorough assessment of the companies from the perspective of the impact of the crisis on the company. All company types may submit an application in France stating only the reasons, the number of employees involved, the number of reduced hours and the time framework for partial unemployment. There are no additional conditions.

## 4 QUESTIONS

1. Why was education and/or training activity not incorporated into APLD as a condition in France?
2. Why did subsidized partial unemployment exist in France even at times when the economy was experiencing development?
3. Is there any evidence that French companies really needed APLD for saving work places and for survival?

## ANNEX 1: SUMMARY TABLE

<b>Labour market situation in the Peer Country</b>
<ul style="list-style-type: none"> <li>• The economic crisis was not as deep as has been assumed; however, the rebound is still fragile.</li> <li>• Overall employment has declined during the crisis, and the largest drop has been recorded in the processing industry (by 10%) which has a large employment share in the Czech Republic.</li> <li>• Unemployment has increased, however, the average is lower (7.2 %) than the average in the countries of the EU.</li> <li>• The percentage of employment on a part-time basis has increased along with the number of work contracts for a temporary period, as a reaction on the part of companies to the uncertainty on the labour market during the crisis period.</li> </ul>
<b>Assessment of the policy measure</b>
<ul style="list-style-type: none"> <li>• The use of the “Get Educated!” project is dominant tool which was introduced with the purpose of assisting companies during the period of the economic crisis.</li> <li>• The project has been running for only 1.5 years and strictly involves courses of generally transferable education in companies.</li> <li>• Companies in the processing industry have commonly been involved in the project.</li> <li>• There has been significant interest in the project although all of the allocated resources for the project will not be used up.</li> <li>• The projects were used by companies in connection with changes inside companies caused by the economic crisis and the related needs for education employees.</li> </ul>
<b>Assessment of success factors and transferability</b>
<ul style="list-style-type: none"> <li>• The Czech and French systems of partial unemployment differ considerably. It is extremely difficult to evaluate their success and mutual transferability.</li> <li>• The Czech system for assisting companies contains educational components and training/education is transferable to other companies, while in France the training/education component is voluntary.</li> <li>• There is extremely strict and thorough evaluation of the companies from the perspective of the actual impact of the crisis on the company in the Czech Republic, while in France any company can submit an application and the allocations are allotted extremely benevolently.</li> </ul>
<b>Questions</b>
<ul style="list-style-type: none"> <li>• Is not the wide range use of APLD counterproductive in the long run as it petrifies survival of weak companies and makes them dependent on assistance from the state in the future? in this connection, it might be appropriate to consider the question of “satiation” of the market, particularly in the car industry.</li> <li>• Shouldn't the economic crisis serve as an impulse for innovations and development of new modern branches? Were these questions discussed in France prior to the introduction of APLD?</li> <li>• Based on the assumption that strong companies survive under normal circumstances, is</li> </ul>

the public financial help to these companies actually effective?