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Balancing Flexibility and Regulation: The Czech Labour Market in the Era of the Grey Economy

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Summary

The impacts of illegal work include not only billions in lost tax and social security revenues, but also the distortion of competition, downward pressure on wages, and a deterioration of labour standards. Analyses suggest that losses to public finances may reach tens of billions of Czech crowns annually. The Kobra 26 initiative and stricter legislation aim to improve institutional cooperation and strengthen the effectiveness of efforts to combat illegal work.

Key Takeaways

- Illegal employment causes billions in losses to public budgets and undermines fair competition.
- The majority of illegally employed workers are third-country nationals, especially in low-skilled sectors.
- The Kobra 26 initiative aims to reduce illegal and disguised employment.

At first glance, it may seem like just a “minor offense.” An employer needs workers quickly, and a worker needs income. They meet, agree, and the work begins—without a contract. But this seemingly harmless arrangement turns, at the level of the national economy, into a phenomenon that drains billions of Czech crowns from public budgets every year, while workers remain without the protections and security that legal employment is meant to guarantee.

The numbers are stark. In 2025 alone, the State Labour Inspection Office (2026) identified 2,484 illegally employed workers during 6,278 inspections, more than 1,600 of whom were third-country nationals. Illegal employment is not a marginal issue. It is a structural, long-term problem that recurs year after year. While some employers knowingly take the risk, others benefit from opaque subcontracting chains where responsibility simply disappears.

Illegal and disguised work take various forms today. Under the Employment Act, it is defined as dependent work performed outside a formal employment relationship. In the case of foreign nationals, it also includes work carried out without the required permits or in violation of them—whether related to employment or residence, where such permits are legally required. Illegal employment means that employers do not pay taxes or social and health insurance contributions, while employees receive wages that are not officially recorded. It is important to distinguish between outright illegal employment without a formal contract and hidden forms of remuneration, where declared income is combined with undeclared payments.

Moreover, illegal employment is often linked to organized crime. In 2026, partly due to the strained state of public finances, it has become a significant political issue.

The Macro Perspective of Illegal Work: Billions Lost from Public Budgets

There are no exact figures on the scale of illegal work in the Czech Republic. Only estimates exist, and these vary depending on the methodology used, the definition of illegal or undeclared work, and the data sources different institutions rely on. The only hard data available relate to detected cases—those identified through inspections by the State Labour Inspection Office and other supervisory authorities. However, these figures represent only the visible part of the problem, capturing just the share of illegal employment that was actually uncovered and proven in a given year.

The latest data from the State Labour Inspection Office for 2025 confirm a year-on-year increase in illegal employment. The number of detected cases rose significantly from 1,934 to 2,484 individuals, despite a slight decline in the number of inspections (from 6,328 to 6,278). This trend may indicate both a growing scale of the problem and a possible improvement in the targeting and effectiveness of inspection activities.

Table 1: Detection of Illegal Employment

Year	Czech nationals	EU nationals	Foreign nationals	Total
2020	556	141	2 413	3 110
2021	312	288	2 695	3 295
2022	472	79	2 007	2 561
2023	583	62	2 156	2 801
2024	541	86	1 307	1 934
2025	713	97	1 674	2 484

Source: SUIP, 2026.

From the perspective of the structure of illegal employment, the dominance of foreign workers—primarily from third countries—has been consistently confirmed over the long term. Out of the total number of detected cases, foreign nationals accounted for 1,674 individuals, compared to 713 Czech citizens and 97 EU nationals.

The largest groups of illegally employed workers came from Ukraine (947 individuals), Moldova (350), Uzbekistan (108), Vietnam (82), and Slovakia (52). This profile reflects both migration flows and structural shortcomings of the labour market, particularly in low-skilled segments such as services, construction, retail, and increasingly also smaller industrial enterprises.

Table 2: Illegally Employed Persons in 2025

Ukraine	947	Illegally employed	
Moldova	350	• Third countries	1 674
Uzbekistan	108	• EU nationals	97
Vietnam	82	• Czech nationals	713
Slovakia	52	Total	2 484

Source: SUIP, 2026.

The fiscal impacts of this phenomenon reach tens of billions of Czech crowns. The Supreme Audit Office (2025) estimates the scale of lost public revenues based on modeled figures of illegal employment derived from labour statistics. As early as 2019, annual losses were estimated at around CZK 23 billion, while between 2019 and 2022 the cumulative loss reached CZK 92 billion. It is important to note that this estimate was based on 2019 data, when the average gross wage stood at CZK 34,578. By 2025, the average wage had risen to CZK 49,215, implying that current losses are likely even higher.

Another estimate, provided by the Association of Personnel Service Providers (2025), suggests that annual losses to public budgets due to illegal practices—particularly the activities of so-called “black agencies”—may reach up to CZK 40 billion. The association also estimates that as many as 500,000 people may be active in the grey labour market in the Czech Republic.

At the European level, a broader concept of “undeclared work” is used, covering all economic activities not reported to relevant authorities. According to a European Commission study (2023), revenue losses from dependent work in the Czech Republic reached nearly CZK 89 billion in 2019, equivalent to around 1.5% of GDP (SAO, 2023). Given that nominal GDP increased from CZK 5,791 billion in 2019

to CZK 8,957 billion in 2026, it is reasonable to assume that the absolute volume of these losses has continued to grow

Although estimates differ depending on methodology and definitions, they all point to the same conclusion: the impact on public finances is significant, systemic, and long-term. Moreover, these estimates may not fully capture the total costs associated with illegal or disguised employment. Additional burdens arise from the social system, as some illegally employed individuals simultaneously receive social benefits. The issue therefore extends beyond lost tax and insurance revenues.

Illegal employment is not only a fiscal problem. It disrupts the functioning of the labour market and creates a range of secondary effects. It distorts competition, as firms using illegal labour gain an unfair cost advantage over those that comply with the law. This can push compliant employers out of the market or pressure them to adopt similar practices

At the same time, it increases downward pressure on wages and labour standards, particularly in sectors with a high share of low-skilled work. Illegally employed workers often lack contracts, paid leave, adequate working conditions, and proper health and safety protection

A further consequence is growing social insecurity, which contributes to long-term labour market instability. Companies relying on cheap and easily accessible illegal labour have less incentive to invest in innovation, technological development, or workforce upskilling.

Illegal Work as a Political Priority

The conclusions of the Supreme Audit Office in this area have long been consistent and clear. They point to systemic shortcomings in public administration, particularly insufficient and delayed information sharing between institutions, low effectiveness in enforcing imposed penalties, and the absence of clearly defined legislative responsibility for assessing social contributions in cases of illegal employment—especially involving foreign workers. Taken together, these institutional weaknesses significantly reduce the deterrent effect of inspections and create space for the continuation of illegal practices.

In response, an inter-ministerial initiative known as Kobra 26 (Ministry of Finance, 2026) has been established to systematically limit illegal and disguised employment. Its core objective is to strengthen coordination among all relevant actors—not only inspection bodies, but also tax authorities, the police, and social security institutions. A key qualitative shift lies in the emphasis on data sharing, joint analytical capacities, and operational task forces, enabling more targeted and effective interventions.

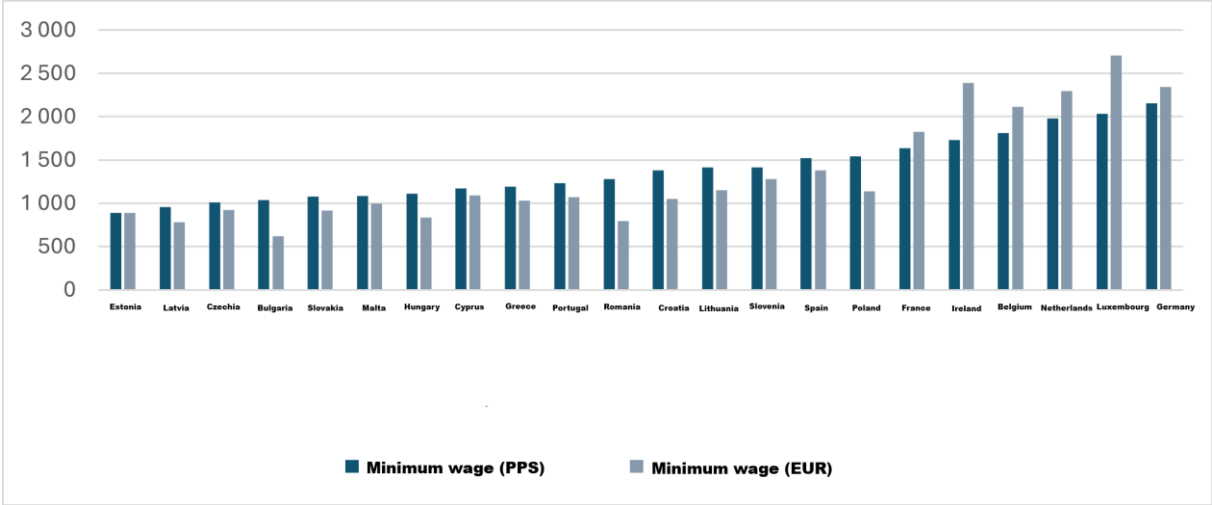
Alongside stronger enforcement, further legislative steps are needed. A priority is tightening the rules governing employment agencies and limiting the creation of shell companies used to conceal real employment relationships. The agency work market is effectively divided into two segments: those that comply with regulations and those that systematically exploit regulatory loopholes. Problematic practices include the misuse of “ready-made” agencies, trading in licenses, and the formal use of responsible representatives without real managerial involvement. A key task going forward is to clearly distinguish legitimate businesses from those engaged in disguised employment and systematic non-compliance with contribution obligations.

Companies that ultimately use the labour—end clients—also play a crucial role. Their pressure to minimize costs, often through outsourcing, creates demand for cheaper forms of employment that can slip into illegality. Without their active involvement—for example through stricter supply chain

oversight or shared liability principles—efforts to reduce the grey labour market will remain only partially effective.

A specific but important factor is the level of the minimum wage. In the Czech Republic, it remains relatively low. Notably, the concept of a minimum wage is not applied uniformly across all EU countries. The Czech minimum wage is low not only in nominal terms, but also when adjusted for purchasing power (PPS), which allows comparison across countries by accounting for price level differences. Although in 2026 it exceeded the Eurostat threshold of 1,000 PPS per month for the first time, it still ranks among the lowest in the EU—third lowest in real purchasing power terms. This reflects both relatively low nominal levels and the overall price structure of the Czech economy.

Figure 1: Minimum Wage in EU Countries in 2026 (Nominal and in Purchasing Power Parity, EUR)



Source: eurostat, 2026.

This situation creates space for a combination of formal and informal wage components. Employers officially report wages at the minimum required level, typically aligned with the statutory minimum wage, while part of the actual remuneration is paid “under the table” and remains undeclared. This mechanism reduces employers’ tax and social contribution burdens, but at the same time creates competitive pressure on other firms to adopt similar practices. As a result, the labour market becomes distorted, wages are pushed downward, and labour standards weaken across entire sectors.

At the same time, increases in the minimum wage can reduce the relative attractiveness of illegal work, as formal wages begin to approach the level workers realistically expect. This limits the space for undeclared “cash-in-hand” payments and reduces employers’ incentives to circumvent the law. A well-designed and regularly updated minimum wage can therefore serve not only as a tool for employee protection, but also as an instrument to curb illegal employment and enhance labour market transparency. For this reason, gradual and predictable increases in the minimum wage could be one of the measures supporting fair business practices.

Conclusion

While the previous section focused on the macro-level of illegal employment, this phenomenon also has an equally important micro dimension. At the individual level, illegal work often creates a vicious cycle of poverty and vulnerability, from which it is difficult to escape. A typical example is a worker from Ukraine, Moldova, or Vietnam who comes to the Czech Republic seeking better earnings. They are hired with promises of decent pay, but in reality receive less than agreed. Employers may

deduct fees for accommodation or transport, provide no proper working equipment, and sometimes the worker does not even know who their actual employer is.

These conditions create an environment in which illegally employed individuals are effectively trapped without protection. The absence of a formal contract means no entitlement to sick leave, paid vacation, protection against dismissal, or compensation in case of workplace injury. For many, there is also the risk of losing their residence status without formal employment, which further deepens their vulnerability.

Illegal work is therefore not beneficial in the long run for anyone except those who organize it. Workers bear all the risks and consequences, the state loses substantial tax and social contributions, and honest businesses face unfair competition from those who systematically violate rules and undermine labour standards.

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