Labour Law Environment for Investors in the Czech Republic, the Slovak Republic and Ukraine

When an investor is making a decision as to which country offers the best conditions for their business, several factors play an important role. One of them (and in many cases the determining one) is the level of labour law legislation, namely what are the conditions of running business in a given country with respect to labour law.

Labour law which is too strict and bureaucratic can discourage investors and the effects of such an approach to regulation may include short-term contracts and illegal work. Countries with more flexible regulation of employment relations are more attractive for investors and usually have a lower rate of unemployment. On the other hand, regulation which is too liberal reduces the job security of employees.

In this article we will give a brief comparison of the fundamental labour law conditions in the Czech Republic, the Slovak Republic and Ukraine that we consider to be relevant for investors.

Slovakia and the Czech Republic combine the advantages of membership in the European Union with still relatively cheap man-power. Together with Ukraine, which is one of the cheapest countries in Europe in terms of labour costs, they are considered as dynamically developing and attractive countries for investors.

The costs of an employee and income tax are usually what investors are most interested in. With regards to the length of employment relationships, entrepreneurs are often concerned with the length of a probation period (which enables an employer to check whether he engaged the right employee) and the possibility of employing persons for a definite period of time. If labour law allows this, an entrepreneur is able to react to the situation in a market optimally and control their need of employees accordingly. For future investors, questions surrounding the termination of an employment relationship are also important.

CZECH REPUBLIC

In the Czech Republic a new Labour Code will become effective on 1 January 2007. With certain limitations, the new Labour Code strengthens the contractual approach whereas the concept of relations between employees and employers based on the current principle "what is not allowed by the Act is prohibited" is replaced by the principle "what is not prohibited by the Act is allowed". Therefore, the parties can, in general, make arrangements that deviate from the Labour Code and the employment contract should be more flexible. On the other hand, the position of unions has been significantly strengthened, particularly in relation to health and safety in the workplace. For this and certain other specific reasons, employers consider the new Labour Code as being even more restrictive than the previous one and are opposed to it.

SLOVAK REPUBLIC

The Slovak Labour Code is relatively liberal and made the labour market substantially more flexible. In 2003 significant amendments were made in order to achieve a higher level of contractual freedom, thus providing a favourable background for job creation and job reallocation. Currently, changes to the Labour Code regarding the welfare of employees are being proposed by the government. According to several economists, flexible employment relations are one of the main reasons for the fast economic development of the country and are an excellent way to attract foreign investments. Labour costs in Slovakia are amongst the lowest in Europe. In addition, Slovakia also offers a favourable tax environment.

UKRAINE

The Ukrainian Labour Code came into force in 1971, yet numerous alterations have been adopted since then. The universal constitutional principle "what is not directly prohibited by the law is allowed" is implemented into work relationship with a restriction "the parties can not deteriorate the rights of an employee stipulated by the legislation even on a contractual basis". Consequently, the labour legislation became more liberalised which in turn resulted in the revival of the labour market and an increase of labour productivity.

COMPARISON OF LABOUR LAW

	Czech Republic	Slovak Republic	Ukraine
Labour law	Labour Code 2007 as of January 1st, 2007 The old Labour Code of 1965 is effective until December 31st, 2006.	Labour Code 2001	Labour Code 1971
Corporate Income Tax Rate	24%	19%	25%
Employers' social security and health insurance contributions per employee (% of direct compensation of an employee)	35%	35.2%	37.3 – 38.9%
Minimum wage	CZK 7.955 (approx. EUR 280)	SKK 7.600 (approx. EUR 200)	UAH 375, as of December 1st - UAH 400 (approx. EUR 60)
Restriction on labour contract for a definite period	Labour contract for definite period for a maximum of 2 years (exceptionally more than 2 years).	Labour contract for definite period for a maximum of 3 years (exceptionally more than 3 years).	Labour contract may be concluded only in the cases determined by law.
Probation period	3 months at maximum	3 months at maximum	3 months at maximum
Notice period (if the notice is given by the employer)	2 months	2 months (3 months for an employee that has worked at an employer for at least 5 years).	2 months
Basic notice grounds (if the notice is given by the employer)	Notice can be given only in the cases determined by law: liquidation, organisational changes, breach of labour discipline, if an employee does not meet the health or other preconditions for the performance of work.	Notice can be given only in the cases determined by law: liquidation, organisational changes, breach of labour discipline, if an employee does not meet the health or other preconditions for the performance of work.	Notice can be given in the cases envisaged by law: liquidation, reorganisation, bankruptcy, changes in work or production organisation, conversion, redundancy.

Source: PETERKA & PARTNERS, Law Offices

We emphasise that this article is of an informative nature only and under no account can it be considered to be a legal opinion. Should you need any further information on labour law issues in these countries, as well as legal advice on investing, please contact our team lawyers and tax advisors at PETERKA & PARTNERS, Kapitulská 18/A, Bratislava, tel. +421 2 544 18 700, e-mail: office@peterkapartners.sk, **www.peterkapartners.com**