



## SLOVAKIA INVESTMENT GUIDE 2014

The Slovak Republic has witnessed robust economic growth and a massive influx of foreign investment over the last decade. Although the global crisis affected the Slovak economy and there are still consequences of it, along with countless others, the country has remained attractive destination for investing in the growing markets of Central and Eastern Europe, according to the 2013 World Bank Doing Business rankings.

This Slovakia Investment Guide 2014 aims to provide an up-to-date overview of the Slovak business environment and information about changes to key areas of Slovak law relevant to potential investors who are considering entering the Slovak market.

The first chapter of the guide contains a brief presentation of the Slovak Republic and its economic reforms over the last decade or so. The second chapter identifies the most significant factors which have enabled the Slovak Republic to become an attractive destination for foreign investors. The third chapter provides information on how to start a business in the Slovak Republic. The fourth chapter aims to analyze the basic exit mechanisms available for those investors wishing to terminate their business activities in the Slovak Republic. Last but not least, the fifth chapter offers a brief overview of dispute resolution mechanisms before courts and arbitration tribunals.

# 1. GENERAL OVERVIEW

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## 1.1 BASIC INFORMATION ABOUT THE SLOVAK REPUBLIC

The Slovak Republic covers 49,000 square kilometres and has a population of around 5.4 million. Situated in the heart of Europe, the country shares borders with Poland (508.2 km), Ukraine (98 km), Hungary (679 km), Austria (115 km) and the Czech Republic (251.8 km). Slovakia's capital city, Bratislava, has a population of 471,000 and is situated in the south-west corner of the country, close to the borders with Austria and Hungary and just 65 km from Vienna and 200 km from Budapest.

This strategic location offers a combined market potential of over 350 million customers within a radius of 1,000 kilometres. The Slovak Republic is also considered a gateway to Ukraine and Russia.

Slovakia is a member of the OECD, WTO, NATO, UNESCO, WHO, INTERPOL and a number of other international organizations. On May 1, 2004, the Slovak Republic joined the European Union and, on December 21, 2007, the Schengen area. As of January 1, 2009, the Slovak Republic became a member of the Eurozone and successfully adopted the euro with the conversion rate set at 30.1260 SKK (Slovak crowns)/EUR. On May 1, 2011, all restrictions and quotas on Slovak citizens living and working in other European Union members states were cancelled, meaning that all Slovaks may now work freely anywhere in the union.

The Slovak Republic follows the continental legal system influenced by the French and German legal systems and, in recent years, by European law.

## 1.2 RECENT ECONOMIC REFORMS HAVE LED TO GROWTH

The Slovak Republic was something of a latecomer to the economic transformation that swept through Central and Eastern Europe in the 1990s. However, following the general election in 1998 the country implemented a set of structural reforms whereby the main banks and utilities were privatized and fiscal transparency and control was improved significantly. As a result, foreign investors from Europe and the U.S. have obtained important stakes in many of the key formerly state-owned institutions.

The reform process gathered pace after the general election in 2002. The new government introduced extensive and far-reaching reforms affecting many areas, from public finance to employment, education, health and social security. The introduction of a simple, competitive and business-friendly 19% flat tax system, generally considered a cornerstone of the 2004 economic reforms, received global attention.

International observers have increasingly come to praise the depth and speed of the changes and the sharp increase in competitiveness and economic dynamism that have occurred in the Slovak Republic. Among other sources, the 2005 World Bank Doing Business Report rated the Slovak Republic as the world's top reformer in improving its investment climate during the previous year. The OECD's recent Revenue Statistics publication ranked Slovakia's tax take as a percentage of GDP as the 7th lowest amongst all OECD countries in 2009.

Slovakia, despite a relatively difficult year in terms of accumulation of debt, in 2011 remained one of only five EU countries which managed to keep its debt level under 60% of GDP.<sup>1</sup> The Slovak government, through the Stability Programme of the Ministry of Finance of the Slovak Republic, confirmed its intention to reduce the state budget deficit below 3% by the end of 2013. In 2011 the government budget deficit was 4.9% of GDP, in 2012 it was 4.35%<sup>2</sup> and in 2013 the government was able to maintain the budget deficit under 3 % of GDP. Forecasts for the following years predict a continuing fall in the government budget deficit to 2.4% of GDP in 2014 and 1.9% of GDP in 2015, below the 3% EU limit for deficits.<sup>3</sup>

## 2. THREE MAIN CONCERNS OF FOREIGN INVESTORS

### 2.1 BUSINESS-FRIENDLY TAX SYSTEM

#### 2.1.1 Overview of the tax system

In order to reduce the government budget deficit the new government in December 2012 approved an amendment to Act. No. 595/2003 Coll. on Income Tax which abolished the previously valid 19% flat tax and introduced a progressive personal income tax with two rates. The range of rates was further extended by an additional special tax rate of 5% for selected state officials, an increased rate for legal entities, and by the reintroduction of taxation of dividends. The amendment limits the application of 40% flat expenses for self-employed persons to a maximum of EUR 5,040 per annum and removes the option of flat spending on real estate. The amendment came into effect on January 1, 2013. Since January 1, 2014, Corporate Income Tax in Slovakia has been reduced to 22%.

TABLE 1: 2014 Basic tax rates in V4 countries

	Slovakia	Czech Republic	Hungary	Poland
Corporate Income Tax	22%	19% <sup>4</sup>	10% / 19% <sup>5</sup>	19%
Personal Income Tax	19 - 25% <sup>6</sup>	15%	16%	18 - 32%
VAT	20% <sup>7</sup>	21%	27%	23%

The Slovak tax system comprises direct and indirect taxes. Direct taxes include income tax (personal income tax, corporate income tax) and municipal taxes (real-estate tax, motor vehicles tax, etc.),

<sup>1</sup> NBS: Analysis of Convergence of the Slovak economy, July 2011, Page 6.

<sup>2</sup> The Slovak Spectator, Debt exceeds 50% of GDP, Available from : [http://spectator.sme.sk/articles/view/49856/3/debt\\_exceeds\\_50\\_of\\_gdp.html](http://spectator.sme.sk/articles/view/49856/3/debt_exceeds_50_of_gdp.html) (Accessed: 4.5.2013)

<sup>3</sup> COMMISSION STAFF WORKING DOCUMENT Accompanying the document REPORT FROM THE COMMISSION ANNUAL REPORT ON THE COHESION FUND (2011). Available from: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SWD:2012:0362:FIN:EN:HTML> (Accessed:14.3.2013)

<sup>4</sup> This tax rate was reduced to 19% as of January 2010.

<sup>5</sup> The corporate income tax rate is 10% up to HUF 500 million (approx. USD 2.500.000), and 19% above that amount.

<sup>6</sup> The personal income tax rate is 19% for incomes up to 176.8-times the national minimum subsistence level and 25% for income over 176.8-times the national minimum subsistence level.

<sup>7</sup> Value added tax was increased to 20% with effect from January 1, 2011. The government has said that Slovak VAT could reduce back from 20% to 19% if the national deficit continues to fall.

whereas indirect taxes include value added tax (VAT) and excise duties. Only income tax and VAT will be dealt with in this chapter, as they are the most relevant from an investor's point of view.

### 2.1.2 Corporate income tax

According to Article 2 of the Income Tax Act, corporate income tax is levied on legal persons provided their registered office or the place of their effective management is located in the Slovak Republic. The Income Tax Act defines the place of effective management as the place where the managerial and business decisions of statutory and supervisory bodies are adopted. The tax obligation of such legal persons is unlimited and they are, therefore, liable to pay tax on income derived from Slovak sources and also on income derived from sources abroad. Other entities such as permanent establishments<sup>8</sup> have only a limited tax obligation and are, therefore, liable to pay corporate income tax only on income derived from Slovak sources. The tax year does not have to correspond to the calendar year.

Note that the Income Tax Act does not contain any particular provisions on group taxation. Each company must submit a separate tax return.

### 2.1.3 Personal income tax

According to Article 2 of the Income Tax Act, personal income tax is levied on natural persons permanently residing in the Slovak Republic or physically present in the Slovak Republic for 183 days or more of a calendar year, either continuously or in total (Slovak tax residents). Slovak tax residents are liable for personal income tax on their worldwide income.

Other natural persons (Slovak tax non-residents) are liable for personal income tax on their Slovak sources of income only. This includes, for example, income from work carried out in the Slovak Republic, income paid by a Slovak company for performing a statutory function in a company, or income from consulting services or similar activities carried out in the Slovak Republic.

### 2.1.4 Value added tax

Value added tax is governed by the VAT Act<sup>9</sup>. Slovak taxable entities with their main office, place of business or establishment in Slovakia must register for VAT if their turnover within the previous twelve calendar months exceeded EUR 49,790. Voluntary registration is also possible, but since you achieve the EUR 49,790 turnover, you have no choice - VAT registration is mandatory.

The VAT rate was increased from 19% to 20% as of January 1, 2011. A reduced rate of 10% applies to goods such as books, medical devices, pharmaceuticals and other goods listed in Annex no. 7 of the Law on Value Added Tax. A reduced VAT rate of 6% that had been applied to so-called 'sale of farm goods' was also abolished by the Amendment to the Act on Value Added Tax No. 490/2010 Coll.

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<sup>8</sup> Article 16 par. 2 of the Income Tax Act defines a permanent establishment as a permanent place or facility being used either constantly or repeatedly by a foreign company carrying out business activities in the Slovak Republic. It can be either a branch that is registered in the Commercial Register or an unregistered unit that has no legal status. A permanent establishment is also constituted by an activity, place or facility through which a foreign company carries out one-off activities in the Slovak Republic for more than 6 months in any 12 consecutive months.

<sup>9</sup> Act No. 222/2004 Coll. on Value Added Tax.

### 2.1.5 Transfer pricing

According to Article 17 par. 5 of the Income Tax Act, prices between a Slovak entity and its foreign related party must be set at a fair market value for corporate income tax purposes. Otherwise, tax authorities have the right to adjust the tax base and impose penalties if they conclude that arm's-length prices have not been respected.

Article 2 letters n) - r) of the Income Tax Act defines a foreign related party as a foreign party economically or personally related, or a foreign party otherwise connected. Note that such a relationship arises only in cases where the parties have established a business connection solely for the purpose of decreasing their tax base. An economic or personal relationship is defined as one party participating in the equity, control, or management of the other party, or a relationship between two parties which are under the common control or management of another party. Participation in equity or control means a higher-than-25% direct or indirect participation in share capital or voting rights.

### 2.1.6 Double taxation avoidance treaties

A tax regime can be modified by double taxation avoidance treaties. To date, the Slovak Republic has concluded such treaties with 64 countries around the world. Tax treaties generally follow the OECD Model Tax Convention.

## 2.2 ATTRACTIVE INVESTMENT INCENTIVES

### 2.2.1 Investment incentives under EU law

Investment incentives are without doubt a serious argument in favour of the Slovak Republic. However, as an EU member country, the Slovak Republic must ensure compliance with EU rules.

One of the fundamental principles of EU law is the promotion of competition within the EU internal market. Therefore, EU member states are prohibited from granting any incentives capable of distorting competition and affecting trade between member states. The concept of state aid is very broad and covers a wide range of direct and indirect public incentives. Investment incentives which seek to attract foreign investors are therefore a priori perceived as distorting competition.

With effect from 1 July 2014 in the programming period 2014 to 2020, there are going to be significant changes of European Regulations (General Block Exemption Regulation, the Regional Aid Guidelines and map of regions of the European Union) governing the granting of regional aid, which will have to be transposed into Slovak legislation. On 22 January 2014, the European Commission approved regional aid map specifying the maximum amount of investment aid applicable to investment projects carried out in different regions of the Slovak Republic with effect from 1 July 2014 to December 2020. Following the registered increase in GDP, compared with the European average GDP, the maximum aid intensity is going to be reduced by 15 % in all regions of Slovak republic except region of Bratislava, in which regional aid continues not to be granted. The table below shows the changes of the maximum intensity of investment aid for individual regions in the programming period 2014 - 2020.

TABLE 2: Percentage of investment which can be covered by investment incentives

Bratislava	0%
Western Slovakia	25%
Central Slovakia	35%
Eastern Slovakia	35%

However, the promotion of competition within the internal market is not the only relevant EU policy. The EU has set as an objective the improvement of the standard of living in poor regions and the elimination of regional disparities. This and other policies have led to a number of exemptions to the principle of prohibition of state aid. The key exemption for an investor is probably the exemption of aid to promote economic development in areas where the standard of living is abnormally low or where there is serious unemployment compared to the EU average. Regional aid differs from other categories of aid as it is restricted to specific geographical areas and specifically aims to encourage the economic development of those areas by providing support for investment and job creation.

As the granting of aid is linked to the region where the investment takes place, the European Commission has determined which regions are entitled to receive aid and the amount of aid each of those regions may receive (see TABLE 2). The percentage of the investment incentive is increased by 10% in the case of medium-sized enterprises<sup>10</sup> and by 20% in the case of small enterprises<sup>11</sup>. However in the case of large-scale investments<sup>12</sup> this percentage is decreased depending on the size of the investment.

### 2.2.2 Investment incentives under Slovak law

Until recently, the Slovak Republic had a mostly unstructured approach to investment incentives. Generally, the type and the amount of incentives received and the conditions the investor had to meet to receive them were determined by negotiation between the government and the investor. Such a system provided a great deal of flexibility, attractive for investors wanting to structure their projects in a particular way, but lacked transparency and certainty.

On January 1, 2008, a new Investment Incentives Act<sup>13</sup> came into force. The Investment Incentives Act recognizes four basic categories of investment projects entitled to investment incentives: manufacturing, technology centres, centres of strategic services, and tourism. Within each category, investors can apply for the following investment incentives: a cash subsidy for the acquisition of long-term tangible and intangible assets, corporate income tax relief, contributions for newly created jobs, and the transfer of real estate at a reduced price.

The legal conditions for obtaining investment support have achieved an enhanced formal status via the amendment of provisions in the Investment Incentives Act.<sup>14</sup> An entrepreneur who would like to receive

<sup>10</sup> Defined as an enterprise with fewer than 250 employees and either annual turnover not exceeding EUR 50 million or annual balance sheet total not exceeding EUR 43 million.

<sup>11</sup> Defined as an enterprise with fewer than 50 employees and annual turnover and/or balance sheet total not exceeding EUR 10 million.

<sup>12</sup> Investment projects with eligible expenditures of at least EUR 50 million.

<sup>13</sup> Act No. 561/2007 Coll. on Investment Incentives.

<sup>14</sup> Regulation of the Ministry of Finance of the SR No. 70/2013 Coll. on April 10, 2013, amending and supplementing Act no. 561/2007 Coll. on Investment Aid.

investment support in the industrial production sector must, in accordance with the provisions of article 1, par. 4 of the Act on Investment Incentives, fulfil the conditions defined by that law, for example:

- a) Procure tangible fixed assets and intangible assets in the amount of at least EUR 10,000,000, of which at least 50% (EUR 5,000,000) must be covered by the equity of a legal person or the property of a natural person - entrepreneur;
- b) procure new production technology and equipment that is intended for manufacturing purposes with a value of at least 60% of the total value of acquired tangible and intangible assets, and meet other conditions mentioned in the amendment;
- c) ensure that production, operations, processes, buildings and processing equipment comply with environmental protection in accordance with special regulations;
- d) carry out the investment project in one place, by one place understand a summary of the properties that make up one corporate land;

**It is necessary to point out that:**

- If the investment project is to be implemented in a district where the unemployment rate for the calendar year immediately preceding the calendar year in which the investment plan was delivered to the Ministry was higher than the national unemployment rate in Slovakia, the sum of EUR 10,000,000 referred to in point c) above shall be reduced to EUR 5,000,000, of which at least EUR 2,500,000 must be covered by the equity of the entity or come from the entrepreneur's own resources;
- If the investment project is to be implemented in a district where the unemployment rate for the calendar year immediately preceding the calendar year in which the investment plan was delivered to the Ministry was at least 50% higher than the national unemployment rate in Slovakia, the sum of EUR 10,000,000 referred to in point a) above shall be reduced to EUR 3,000,000, of which at least EUR 1,500,000 must be covered by the equity of the entity or come from the entrepreneur's own resources;
- If the investment project is to be implemented by a small or medium-sized enterprise, the above amounts are reduced by half.

In light of the above it may be concluded that the small-business sector operating in industry has more favourable conditions for receiving investment aid. Investment support also applies to other sectors of the economy, not only industrial production. In order to clarify the law on investment assistance the table below indicates the minimum value of fixed assets that must be procured in other sectors.

TABLE 3: Minimum equity investment in comparison with investment support.

The lowest level of assets needed to attract investment support	Investment support areas			
	Industrial production	Technology centres	Strategic support centres	Tourism
€14,000,000	€7,000,000	-	-	-
€10,000,000	-	-	-	€5,000,000
€7,000,000	€3,500,000	-	-	-
€5,000,000	-	-	-	€2,500,000
€3,500,000	€1,750,000	-	-	-
€3,000,000	-	-	-	€1,500,000
€500,000	-	€250,000	-	-
€400,000	-	-	€200,000	-



Source: Statistics Office of the European Communities and NBS analysis of the Slovak economy's convergence. This data is of an informative nature only.<sup>15</sup>

In the case of technology centres investment incentives may be used only for the development of new technology centres or for the expansion of existing centres, and on condition that the investor makes an investment of at least EUR 500,000 in the acquisition of tangible or intangible assets<sup>16</sup> and that at least 70% of employees possess an academic degree.

Other common conditions have to be met by the investor. At least 25% of the investor's eligible costs must be financed from sources other than state aid. The investor must start business activities within three years of the date the state aid was granted. And the investor must retain assets that were acquired through investment aid for a period of at least five years.

## 2.3 LOW-COST AND SKILLED LABOUR FORCE

### 2.3.1 Labour force availability

The Slovak Republic has a working population of 2.342 million, with a strong tradition in engineering and mechanical production. The unemployment rate increased from 14% in 2012 to 14,3 % in 2013.<sup>17</sup>

Major regional disparities have developed in Slovakia regarding unemployment rates, with the lowest being in the more developed west of the country (Bratislava, Trnava and Trencin regions) and the highest in central and eastern Slovakia (Banska Bystrica, Kosice and Presov regions). This phenomenon can be partially explained by the fact that the influx of FDI has been heavily concentrated in the western regions of the country.

TABLE 4: Unemployment rates in V4 countries (in %)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Slovakia	18.2	16.3	13.4	11.1	9.6	12.5	14.0	14,56	14.0	14,3
Czech Republic	8.3	7.9	7.2	5.3	4.4	9.2	7.0	6,7	7,5	6,8
Poland	19.0	17.8	13.9	9.6	7.1	11.1	9.7	9,9	10,6	10,1
Hungary	6.1	7.2	7.5	7.4	7.9	10.3	12.0	10,7	10,9	9,3

Source: Statistics Office of the European Communities and analysis of the Slovak economic convergence by NBS.

<sup>15</sup> Provisions of articles 4 and 7 of Act No. 561/2007 Coll. on Investment Aid, as amended.

<sup>16</sup> At least 50% has to come from the investor's own resources.

<sup>17</sup> Nezamestnanost' podľa Výberového zisťovania pracovných síl v roku 2013. Available from: <http://portal.statistics.sk/showdoc.do?docid=72311> (Accessed: 01.04.2014).



TABLE 5: Regional unemployment in the Slovak Republic for 2008 - 2012

	Unemployment Rate (%)					Available Employees				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Bratislava Region	3.6	4.7	6.1	5,8	5,6	12,400	16,300	20,900	20,400	19,000
Trnava Region	6.2	9.1	12.0	10,6	11,4	18,300	27,500	36,600	31,700	33,700
Trencin Region	4.7	7.3	10.2	8,7	9,0	13,900	21,400	30,700	25,900	26,200
Nitra Region	8.8	13.0	15.4	12,5	13,3	31,700	45,700	54,100	43,900	45,900
Zilina Region	7.7	10.6	14.5	14,3	14,3	25,900	35,400	48,700	48,600	48,000
B.Bystrica Region	18.2	18.8	18.6	17,5	18,0	59,500	59,800	60,300	58,000	61,000
Presov Region	13.0	16.5	18.6	17,8	18,3	48,700	62,400	72,000	68,000	70,000
Kosice Region	13.5	15.5	18.3	19,6	19,7	47,200	55,800	65,800	71,600	73,900

Source: Statistics Office of the Slovak Republic<sup>18</sup>

### 2.3.2 Labour costs

Although productivity rates are similar within the V4 region (i.e. the Visegrad Group, comprising the Czech Republic, Hungary, Slovakia and Poland), labour in Slovakia remains cheaper than in the Czech Republic, and, in spite of a slight increase, comparable to Hungary and Poland. It is approximately four times cheaper than in Western Europe.

TABLE 6: Labour costs in selected European Union countries

	EUR / hour						
	2007	2008	2009	2010	2011	2012	2013
Slovakia	6.8	7.4	7.5	7.9	8.0	8.3	8.5
Poland	6.8	7.5	6.9	7.0	7.0	7.4	7.6
Hungary	7.1	7.6	7.6	7.3	7.3	7.5	7.4
Czech Republic	7.9	8.1	9.6	10.0	9.9	10.6	10.3
France	25.3	29.2	32.9	33.1	33.1	34.2	34.3

Source: Statistics Office of the European Communities

Great disparities exist in labour costs between particular Slovak regions, with the highest costs being in Bratislava and Kosice regions and the lowest in Presov, Nitra and Banska Bystrica regions.

### 2.3.3 Labour law overview

The revision of the Labour Code which came into effect on 1 January, 2013 are still valid and has resulted in the following changes: fixed-term employment can be agreed for a maximum of two years, and extended or renewed a maximum of 2 times within a period of two years; the possibility to extend probation periods via a collective agreement has been abolished; a maximum probation period of three months and a maximum of six months for a chief executive, authorized representative or statutory body member is now set by law; night work is defined as work performed between 10pm and 6am; and average weekly working time including overtime cannot exceed 48 hours over four consecutive months.

<sup>18</sup> 'Nezamestnanost'. Available from: <http://portal.statistics.sk/showdoc.do?docid=1801> (Accessed on: 01.04.2014).

According to Article 42 par. 1 of the Labour Code<sup>19</sup>, employment relations shall be established by written employment contracts between an employer and employees. Besides an employment contract, the Labour Code recognizes three other contract types: work performance contract<sup>20</sup>, work activities contract<sup>21</sup> and temporary student job contract<sup>22</sup>. These contracts are of minor importance and therefore will not be dealt with in this chapter.

According to Article 85 par. 5 of the Labour Code, the maximum weekly working time is 40 hours, although in some particularly arduous or hazardous occupations the figure may be lowered to 33.5 hours. Overtime work shall not exceed 8 hours per week over a period of more than 4 consecutive months. In the event that an employer has a different agreement regarding overtime this cannot be agreed for a period longer than 12 consecutive months or 150 hours<sup>23</sup> in a calendar year.

According to Article 59 par. 1 of the Labour Code, an employment contract can be terminated subject to the mutual agreement of the parties, immediate termination, termination by notice during a probationary period.

According to Article 68 par. 1 of the Labour Code, the employer may terminate an employment contract immediately only in the event that the employee in question has been convicted of an intentional criminal act or a serious breach of discipline. The opportunities for an employee to terminate an employment contract immediately are limited to exceptional circumstances.

The notice period must, according to the Labour Code, be at least one month. This applies only to employees who have worked for their employer for less than one year. In cases where an employee who was employed for more than one but less than 5 years is made redundant, he/she is eligible for a notice period of two months. If an employee has been employed for more than five years, his/her notice period is 3 months.

By contrast, an employer may only give notice to an employee for one of the reasons expressly stipulated in the Labour Code. Article 63 stipulates the following reasons:

- a) Employer's business or part thereof is wound up or relocated;
- b) Employee is made redundant by virtue of a change in duties, technical equipment, reduction in the number of employees with the aim of increasing work efficiency, or other organisational changes;
- c) According to medical assessment, the employee has lost the ability to perform his/her previous work due to his/her health conditions;

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<sup>19</sup> Act No. 311/2001 Coll. the Labour Code.

<sup>20</sup> According to Article 226 of the Labour Code a work performance contract may be concluded only for performance of specific work or a specific work task and only on condition that the anticipated extent of work does not exceed 350 hours in a calendar year.

<sup>21</sup> According to Article 228a of the Labour Code a work activities contract may be concluded only if work activities do not exceed 10 hours per week.

<sup>22</sup> According to Article 227 and 228 of the Labour Code a temporary student job contract may be concluded only if work activities do not exceed 20 hours per week. The contract has to be concluded in writing.

<sup>23</sup> An employee who performs medical professional work under a special regulation may, after agreement with employees' representatives, be permitted to work an additional 100 hours of overtime per calendar year. Zamestnancovi, ktorý vykonáva zdravotnícke povolanie podľa osobitného predpisu, možno po dohode so zástupcami zamestnancov nariadiť ďalšiu prácu nadčas v rozsahu najviac 100 hodín v kalendárnom roku.

- d) Employee does not meet legal requirements for due performance of the agreed work;
- e) Employee does not duly fulfil his/her work tasks, even though he/she was instructed by the employer to rectify insufficiencies, in writing, twice within a period of 6 months;
- f) Employee commits a serious breach of discipline;
- g) Employee commits ongoing but less serious breaches of discipline.

Collective redundancy is defined by the law as a situation where an employer terminates an employment relationship for reasons a) and b) as stated above with at least 10 employees over a period of 30 days.

The Labour Code allows overlapping of a notice period and severance pay. An employee is entitled to severance pay in addition to their notice period. Severance pay is determined by length of employment, i.e. the number of years worked by the employee whose employment the employer terminates by giving notice on the grounds referred to in article 63, par. 1, point. a) or point. b) of the Labour Code, or because the employee has lost, because of his health condition, according to medical opinion, the long-term capability to perform his previous work. The employee in question is, upon termination of employment, entitled to severance pay in the amount of at least:

- a) one month's average salary if the employee has worked at least two years and less than five years;
- b) twice their monthly average salary if the employee has worked at least five years and less than ten years;
- c) three times their monthly average salary if the employee has worked at least ten years and less than twenty years;
- d) four times their monthly average salary if the employee has worked at least twenty years

The Labour Code enables employers, on the grounds of objective operational reasons, to use temporary employees assigned to them by the Agency for Temporary Employment. Under the temporary assignment regime, the employer does not have a direct employment contract with such employees. The employees are employed by the Agency for Temporary Employment and subsequently assigned to the employer for an agreed time period. This regime is used by a number of investors during high-season periods to meet increased production targets. The Agency for Temporary Employment may temporarily assign an employee to the user-employer only in the case of an employee employed by the agency. Agency employees can not be temporarily employed via an employment agreement.

## 3. STARTING A BUSINESS

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### 3.1 LIMITED LIABILITY COMPANY

Investors entering the Slovak market may choose between several corporate forms introduced either by the Commercial Code<sup>24</sup>, such as a limited-liability company, joint-stock company, general partnership or limited partnership, or by EU law, such as a European company<sup>25</sup>. A limited-liability company (in Slovak: *spoločnosť s ručením obmedzeným*; abbreviation: *s.r.o.*) is the most commonly used corporate form and is therefore dealt with in detail in this chapter.

<sup>24</sup> Act No. 513/1991 Coll. the Commercial Code.

<sup>25</sup> Council Regulation (EC) No. 2157/2001 of 8 October 2001 on the Statute of a European company (SE).

Limited liability companies are popular in Slovakia as on one hand they ensure that the member has limited liability in exchange for a relatively small investment into the registered capital, and on the other hand the organisation of a limited liability company is simple.

There are no limitations on foreign investors when it comes to setting up companies. A foreign natural or legal person may establish any form of company either together with other foreign or Slovak persons or alone as a sole shareholder. In this respect, foreign natural and legal persons enjoy the same rights and bear the same obligations as Slovak persons and may not be discriminated against.

According to Article 108 of the Commercial Code, minimum registered capital of EUR 5,000 is required. Article 111 par. 1 requires that at least 50% of the registered capital is paid before the proposal for registration of the company is filed in the Commercial Register.

### **3.1.1 Establishment**

It may be founded by one or more (up to 50) individuals or legal entities (known as 'partners'). A limited liability company may be established by a sole founder or more founders, either individuals or legal entities, with the maximum number of 50 shareholders. An individual cannot be the sole partner in more than three companies. The founding partners are obliged to draw up a Memorandum of Association describing the company's activities, partners and their shares, company representatives (executives) and details of the company's reserve fund.

The registered capital must be at least EUR 5,000, with each partner making a minimum contribution of EUR 750. An official appraiser must value non-monetary contributions. At least 30% of each partner's monetary contribution, and in cases of non-monetary contributions at least 50%, must be paid up before the s.r.o. is entered in the Commercial Register. If the s.r.o. is founded by a single entity, the registered capital must be paid up in full.

A limited liability company may be established by a sole shareholder irrespective of whether they are a legal or a natural person. Two restrictions exist in this regard. Firstly, a company owned by a sole shareholder must not be a sole shareholder in another limited liability company. Secondly, a natural person must not be a sole shareholder in more than three companies. The maximum number of shareholders is limited to 50.

The process of establishing a limited liability company is relatively simple and takes about three weeks. Signing of the memorandum of association is followed by acquisition of the necessary trade licences and finally by registration of the company in the Commercial Register of the competent district court. It is important to stress that a limited liability company acquires legal personality status upon its registration in the Commercial Register.

### **3.1.2 Liability**

A limited liability company is liable for the breach of its obligations with all its assets, while shareholders guarantee for the breach of the obligations of the limited liability company only up to their committed but unpaid contributions to the registered capital registered with the Commercial Register.

The corporate bodies of a limited liability company are the shareholders' meeting, executive director and supervisory board.

### 3.1.3 Management

A shareholders' meeting is composed of all shareholders and decides on all major issues including the appointment and dismissal of the executive director, modification of the statutes and memorandum of association, increases and decreases in the registered capital, etc. The Commercial Code contains detailed regulations on how individual sessions are to be convened and organized.

An executive director is a statutory representative of the company. The company may have several executive directors. Only a natural person can be appointed as an executive director. In the event that there are several executive directors, each of them is entitled to act individually on behalf of the company unless stipulated otherwise in the memorandum of association.

Establishment of a supervisory board is optional. The participants may decide to establish a supervisory board in the company's memorandum of association. The supervisory board must be composed of at least three members appointed by the shareholders' meeting.

### 3.1.4 Reserve fund

A limited liability company must create a reserve fund at the time and in the amount determined in the foundation agreement (foundation deed), however, at the latest for the year when the company first generated profit. The first contribution to the reserve fund must be at least 5 % of the net profit, however, not more than 10 % of the registered capital; subsequently the company must regularly increase the amount of the reserve fund until it reaches 10 % of its registered capital. Thereafter, the fund must be supplemented annually by a sum stipulated in the Memorandum of Association; however, this sum may not be lower than 5% of net profit. The reserve fund must be supplemented until it reaches the level stipulated in the Memorandum of Association, which must be at least 10% of the registered capital. The reserve fund may be used, to the minimum extent required by law, only to cover the company's losses.

An amendment to the Commercial Code effective from 1 October, 2012 restricts establishment of a limited liability company for persons who have tax arrears or customs duty arrears. This restriction applies to majority share transfers or distribution of shares. In all such cases, the promoter will be required to obtain tax authority consent to the registration of a company in the commercial register.

The tax or customs office, at the request of the taxpayer, shall issue within five working days consent to inclusion in the commercial register if the taxpayer has no tax arrears or customs duty arrears. Such arrears shall not exceed the amount of EUR 170.

From January 2014 the time allowed for registration in the commercial register should be reduced significantly, from 5 days to 2 days.

Note that no restrictions are imposed on the import and export of capital, and repatriation payments may be made in any currency<sup>26</sup>. According to Article 8 of the Foreign Exchange Act, the National Bank of Slovakia has to be notified by residents and branches of non-residents in Slovakia about any collections, payments and transfers relating to direct investments, loans and securities abroad and in relation to non-residents, as well as about the establishment of accounts abroad and balances thereof.

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<sup>26</sup> Article 7 of Act No. 202/1995 Coll. the Foreign Exchange Act.

Act No. 394/2012 Coll. on Restrictions on Cash Payments, which came into force on 1 January, 2013, prohibits cash payments exceeding EUR 5,000 and cash payments exceeding EUR 15,000 between individuals. The penalty for breaches of the law is EUR 150,000.

## 3.2 JOINT STOCK COMPANY

A joint stock company has registered capital divided into shares with a specified nominal value. It can have any number of shareholders. The shareholders do not guarantee the liabilities of the company. The list of shareholders is kept by the Central Securities Depository. Joint stock companies can be public or private. Public joint-stock companies are companies whose shares are traded on the Stock Exchange or have been issued (in whole or part) at a public offering.

### 3.2.1 Foundation

Joint-stock companies (a.s.) may be founded by a single legal entity or by two or more individuals or legal entities (resident or non-resident). A joint-stock company may be public or private. A public joint-stock company is a company that has issued all or part of its shares through a public offer for subscription shares, or has had its shares accepted by the Stock Exchange to be traded on the securities market. The registered capital must be at least EUR 25,000. It must be fully issued and at least 30% paid upon incorporation. It must be fully paid up within a year of incorporation, or within the period specified in the articles of association. In the case of a single founder, a Founder's Deed must be drafted and signed. If two or more people found the company, they must conclude a Founding Agreement. These Founding Documents must be made in the form of a Notaries Deed and must be accompanied by the company's by-laws (Articles of Association). The company may be entered in the Commercial Register only once the founding General Meeting of shareholders has been held (if applicable), the company by-laws have been approved and members of the company's statutory bodies have been elected.

### 3.2.2 Liability

A joint-stock company is liable for breach of its obligations with its entire property. The shareholders are not liable for the obligations of the company. However, each shareholder is liable to the company to pay the issue rate of the subscribed shares. Members of the Board of Directors who have breached their duties shall be jointly and severally liable to compensate damage caused to the company. The right of the company to receive compensation for damage caused by the Members of the Board can be claimed directly by the creditors of the company if their receivables cannot be settled from the company's assets.

### 3.2.3 Registered capital

Stock may consist of either bearer shares or shares registered in a name. Shares can be issued either in book-entry form or in paper form. Registered shares can be issued in both forms, unlike bearer shares which can be issued only in book-entry form. Both are transferable.

The option to issue employee shares as a specific type of share is not allowed. When increasing the registered capital of the company, employees are able to acquire company shares for a lower price. Preference shares may be issued for up to a maximum of 50% of the registered capital. Non-voting preference shares may be also issued. Interest-bearing shares (whose yield is not related to the performance) are not permitted.

### 3.2.4 Management

The company's major decisions are made by its shareholders at a general meeting and cannot be made outside of the general meeting. Unlike in the case of a limited liability company. The Supervisory Board is a mandatory corporate body that supervises the activities of the Board of Directors. A supervisory board must be established with at least three members (if the company has more than 50 employees they are entitled to nominate at least one third of the members of the Supervisory Board).

Responsibility for ensuring proper accounting and reporting procedures, and for the general management of the company's activities, is undertaken by the Board of Directors, which has the power to make decisions about all corporate matters except those reserved (by law or in the articles of association) for shareholders at general meetings or the supervisory board. Only a natural person can be a member of the Board of Directors.

### 3.2.5 Special features

- Minimum capital of EUR 25.000;
- Non-monetary contributions fully subscribed and at least 30% of monetary contributions paid up;
- An annual or extraordinary audit is required if at least two of the following conditions have been met for the last two years (turnover, assets and the number of employees);
- A Supervisory Board must be established;
- A Reserve fund is required on incorporation.

### 3.2.6 Advantages

- Shares can be publicly traded on the Stock Exchange;
- Exists independently of its shareholders who are not liable for its debts and obligations;
- More legal guarantees against the misuse of powers by the members of the Board;
- The shareholder structure is not published in the Extract from the Commercial Register.

### 3.2.7 Disadvantages

- More heavily regulated;
- Larger reserve fund and registered capital needed;
- Must have a supervisory board with employee-elected members (if the company has more than 50 employees).

## 3.3 THE EUROPEAN COMPANY (SOCIETAS EUROPEA)

Council Regulation 2157/2001/EC provides the option to form a European Company SE, able to operate on a Europe-wide basis since 8 October 2004, and also the deadline for EU member states to implement the related Directive (2001/86/EC) on worker involvement in such SEs. An SE enables companies established in more than one member state to merge or create a joint venture or a holding company, and conduct their business activities throughout the EU on the basis of a single set of rules and a unified management and regulatory system. European companies are registered on the Commercial Register. A European company can be formed by merger, by the formation of a holding SE, by forming a subsidiary SE, or the transformation of a public limited liability company into a SE. Registration of the SE is subject to resolving the employee participation in the company bodies. The Council Regulation enables the transferring of the



SE's seat, without the company being wound-up or without creating a new legal entity. Such transfer of seat is not possible with other types of company. The minimum registered capital for an SE is EUR 120 000.

### 3.4 ORGANISATIONAL UNIT OR BRANCH OFFICE OF A FOREIGN LEGAL ENTITY

A branch office is not a legal entity but an establishment acting on behalf of its founder and it must be registered with the Commercial Register. The branch office of a foreign company does not have a separate legal identity from its parent company, but has its own management (Director of a branch), accounting and tax requirements. The application for registration must be filed within 90 days following the establishment of the branch office and it is subject to registration fees. Assets of the branch office belong to the founder and are maintained in separate accounting books of the founder. The liability for the obligations of the branch office is borne by its founder. Head of the branch office, registered in the Commercial Register, is empowered to perform on behalf of the founder all legal acts concerning the branch. Also the founder of the branch is entitled to act on its behalf, if registered with the Commercial Register. The branch office does not create any mandatory registered capital.

#### 3.4.1 Suitable activities

While Slovak law does not limit the activities of enterprises or branch offices of foreign entities, it does require that these offices fully list their planned activities in their application for entry in the Commercial Register. Only then may they engage in the activities registered in the Commercial Register.

#### 3.4.2 Management

Entities establishing an enterprise or branch office must appoint a director (manager) to head the branch and register him/her in the Commercial Register. This person can be either a Slovak national or an ex-patriot with a valid long-term Slovak residence permit. Ex-patriots who are citizens of EU and OECD member states are not required to have long-term Slovak residence permits. Branch offices of foreign entities are treated as other legal bodies under Slovak legislation.

#### 3.4.3 Registering a branch office

Following documents are mandatory for successful registration of branch office:

- the Founding document of a foreign legal entity;
- the Articles of a foreign legal entity, if received;
- the Decision of a foreign legal entity on the establishment of Representative office in the Slovak Republic;
- document demonstrating trade license to operate, to be entered in the Commercial Register as of business;
- the Certificate of registration of the foreign legal entity in a register or other record that contain the registration number, if the law of a foreign legal entity by which it is established makes registration compulsory;
- other documents which certify facts under special regulations.

## 3.5 ESTABLISHING BUSINESS PREMISES

### 3.5.1 Purchase of real estate

The Roman principle of “superficies solo credit” is not reflected in the Slovak legal system. As a result, land and buildings can be acquired separately by different entities.

The Civil Code specifies several possible ways of acquiring the title to real estate, such as a written contract, inheritance, the decision of a public authority, or by other means stipulated in the law. In most cases, real estate is acquired on the basis of a written contract. It is important to note that in the case of a written contract the title is acquired only upon constitutive registration in the Land Register. The registration procedure takes a minimum of 15 days.

Registration in the Land Register is binding unless proven otherwise. It is therefore possible for anybody to claim “real” ownership of a property, even though there is a valid registration of the title in the Land Register. To avoid any difficulties it is recommended that purchasers undertake a detailed due diligence of title transfers during the previous 10 years as this period corresponds to the 10-year ownership prescription period.

According to a general principle introduced as of May 1, 2004, by Article 19a par. 1 of the Foreign Exchange Act, foreign natural and legal persons may acquire real estate in the Slovak Republic without any limitations. The only exception applies to land that is owned solely by the Slovak Republic, and to agricultural and forest land. For citizens of other EU member states a 3-year transition period for acquisition of forest and agricultural land applies, i.e. the person is required to use the land 3 years prior to acquiring it, and, at the same time, must have obtained a residence permit.

### 3.5.2 Lease of business premises

Foreign natural and legal persons are not limited in their freedom to lease real estate in the Slovak Republic. Only lease contracts for more than five years are registered in the Land Register. It is important to stress that non-residential premises can only be leased for the purpose designated in the use permit.

### 3.5.3 Construction and reconstruction

According to Slovak law, structures may be erected only after the acquisition of a building permit issued by a competent building office (usually the municipal office in the territory in which the structure is going to be erected). Such a permit may be applied for by the owner of the land on which the structure will be built or by another person having special rights to the land resulting from a lease contract or easement.

The building procedure has three separate stages: zoning permit, building permit and use permit. Under certain conditions the zoning and building permits may be joined in a single procedure.<sup>27</sup>

During the zoning permit procedure, the Building Office considers whether a particular structure with generally defined parameters can be erected in a particular area. The zoning permit is issued on the basis of, and must comply with, the zoning plan prepared by the municipalities and state authorities. Other specific studies might be required by the Building Office before or during the procedure.

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<sup>27</sup> Article 39a par. 4 of the Building Act; this applies in the case of minor construction and structures in areas where there is a zoning plan.

In the building permit procedure the Building Office undertakes in-depth examination of the project documentation. Architectural designs are part of the project documentation and must fully comply with the zoning permit issued in the previous stage.

Note that before zoning and building permits are issued, the Building Office canvasses the opinions of a large number of diverse public authorities. If any of these authorities objects, it may significantly complicate the procedure. The procedure might further be complicated by objections and appeals from the owners of neighbouring land and buildings, as they are parties to the building permit procedure. Once a building permit is obtained, construction work may begin. After construction work is terminated, a use permit must be applied for. According to Slovak law, structures may not be used without a valid use permit. The entire zoning and building permit procedure takes approximately 6 to 12 months depending on different factors and possible complications.

If specific structures designated for the performance of activities could have significant impact on the environment, an Environmental Impact Assessment (EIA) may be required by the law.<sup>28</sup> An EIA is a fairly complicated administrative procedure and takes approximately 18 months. Please note that if an EIA is required by law, it is not possible to apply for a zoning permit without a final opinion, the final document issued at the end of an EIA.

## **4. CLOSING A BUSINESS**

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### **4.1 GENERAL OVERVIEW**

The Commercial Code provides foreign investors who wish to terminate their business activities in the Slovak Republic with several exit mechanisms. The first and perhaps the easiest method is the transfer of business shares in the Slovak company to another legal or natural person. A foreign investor may also decide to dissolve the Slovak company with liquidation or without liquidation, depending on whether the company has any assets. Launching a bankruptcy procedure is also one of the options for dissolving a company. According to Article 68 par. 1 of the Commercial Code, a company ceases to exist on the date of its deletion from the Commercial Register of the competent district court.

As the Limited Liability Company is the most commonly used corporate form, exit mechanisms for this corporate form will be dealt with in the following chapters.

### **4.2 TRANSFER OF BUSINESS SHARES**

Unless stipulated otherwise in the memorandum of association, a shareholder may transfer his business share in a company to another shareholder of the same company only after the approval of a shareholders' meeting. Transfer of a business share to a third party is more complicated. According to Article 115 par. 2 of the Commercial Code, a shareholder may transfer his business share to a third party only if the memorandum of association allows such a transfer. It is therefore recommended that such a provision be taken into consideration when drafting the memorandum of association. A written contract is required and the signatures of the parties must be certified by a notary public. An amendment to the Commercial Code,

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<sup>28</sup> Act No. 24/2006 Coll. on Environmental Impact Assessment; the list of activities where an EIA is required can be found in Annex 8 of the act.

effective from 1 of January 2013, introduced the obligation to substantiate an application for registration of change in the identity of a shareholder in the commercial register by a transfer of shares with the approval of the tax authorities. It does not apply if there is a transfer of shares resulting from the dissolution of the company without liquidation as a result of termination of the shareholders' participation or when there is a transfer of a minority share.

## 4.3 DISSOLUTION OF A COMPANY

### 4.3.1 Dissolution of a company without liquidation

Dissolution of a company without liquidation takes place if the Slovak company does not have any assets. It should be noted that the company body can not voluntarily decide that the company has no assets and thereby dissolve the company without liquidation. Dissolution of the company without liquidation because of non-existence of assets that would be sufficient to pay the reasonable expenses and compensation for the performance of liquidation is possible only on the basis of a court decision.

Dissolution of a company without liquidation is also possible if an application for bankruptcy procedure was rejected due to lack of assets or there were no assets left in the Slovak company once the bankruptcy procedure was terminated. In this case the bankruptcy court submits a valid and effective bankruptcy decision to the competent district court, which subsequently deletes the company from the Commercial Register.

Dissolution of a company without liquidation is also possible if the assets and liabilities of the Slovak company were transferred to its legal successor. According to Article 69 of the Commercial Code, assets and liabilities are transferred to the legal successor in the case of a merger (in Slovak: *zlúčenie*), a take-over (in Slovak: *splynutie*) or a split (in Slovak: *rozdelenie*). In the case of a merger, the assets of one or more dissolved companies are transferred to another already existing company which becomes the legal successor of the dissolved companies. In the case of a take-over, the assets of at least two dissolved companies are jointly transferred to a newly established company which becomes the legal successor of the dissolved companies. In the case of a split, the assets of one or several dissolved companies are divided and transferred to several other companies. The law requires that draft merger contracts, take-over contracts and splits are approved by shareholders' meetings of the participating companies. An application for deletion of a dissolved company from the Commercial Register or an application for the registration of a merger, a take-over or a split in the Commercial Register must be submitted jointly by all participating companies.

### 4.3.2 Dissolution of a company by liquidation

Dissolution of a company by liquidation takes place if the assets of the company have not been transferred to its legal successor and there are no reasons for a bankruptcy procedure to be initiated. The main objective of liquidation is to settle all the economic relationships of a company in a definite way.

A company enters liquidation on the date of the adoption of its shareholders' decision to dissolve the company. The power to act on behalf of the company is transferred from the executive director to the liquidator appointed by the shareholders' meeting. The liquidator must notify all creditors of the company about the commencement of liquidation and must publish this information in the Commercial Bulletin together with a call for creditors to notify their claims against the company within a period of at least 3 months. Once the claims are satisfied, remaining assets are divided between the shareholders on the basis

of the shareholders' meeting resolution. Subsequently, the liquidator must apply for the deletion of the company from the Commercial Register before the relevant district court.

## 5. DISPUTE RESOLUTION

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### 5.1 ARBITRATION

#### 5.1.1 Domestic arbitral awards

In the Slovak Republic, arbitration is governed by the Arbitration Act<sup>29</sup>, which is based on the United Nations Commission on International Trade Law (UNCITRAL) Model Law of 1985.

According to the Arbitration Act, parties may agree in an arbitral clause to the contract or in an arbitration agreement to submit to arbitration all or any differences which have arisen or may arise between them in respect of a defined legal relationship, whether contractual or not. The law requires such an agreement to be in writing, under sanction of invalidity. The absence of a written agreement may be rectified by a joint declaration of the parties before the arbitration tribunal prior to the beginning of a procedure at the latest.

According to Article 1 par. 2 of the Arbitration Act, only disputes that can be resolved by a settlement before a court can be decided by arbitration. The law specifies disputes that are expressly excluded from arbitration, such as disputes arising in connection with the ownership and other proprietary rights concerning immovable property, the personal status of private persons, enforcement of judgments, and bankruptcy and restructuring procedures.

Arbitration is considered domestic if the arbitration procedure takes place in the Slovak Republic. An arbitration procedure can take place before one or more arbitrators appointed by the parties or before an arbitration tribunal.

Note that in the event of international differences, a domestic arbitration tribunal decides on the basis of the legal order agreed by the parties. However in the case of domestic differences, the arbitration tribunal always decides on the basis of the legal order of the Slovak Republic. The arbitration tribunal can decide on the basis of principles of equity only if this is expressly agreed by the parties.

An arbitration award has the same legal effects as a valid and effective court decision and can be executed under the same conditions. An arbitration award may be reviewed by another arbitrator (or other arbitrators) only if expressly agreed by the parties.

Opportunities for the parties to challenge an arbitration award before the courts are very limited. The reasons stipulated in law generally concern violation of basic procedural rules. The parties may not challenge the arbitral award before a court by arguing improper interpretation and application of the facts and law by the arbitrator.

#### 5.1.2 Foreign arbitral awards

The Slovak Republic is a party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards signed on June 10, 1958, in New York (hereinafter the "New York Convention").<sup>30</sup> The recognition

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<sup>29</sup> Act No. 244/2002 Coll. on Arbitration Procedure.

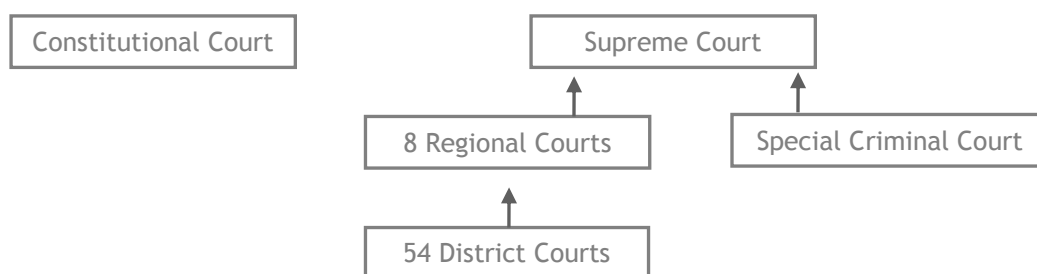
and enforcement of foreign arbitral awards is also governed by the Arbitration Act. However, in the case of conflict the New York Convention prevails.

Please note that the Slovak Republic has adopted the reciprocity reservation previewed by Article 1 Clause 3 of the New York Convention and therefore the New York Convention is applied only to awards issued by other contracting states. The Slovak Republic also applies the New York Convention with respect to the enforcement of arbitral awards from non-contracting states provided that such states also apply the convention in relation to arbitral awards issued by the Slovak Republic.

An arbitral award is considered foreign if issued in a country other than the Slovak Republic. Foreign arbitral awards must be executed under the same conditions as domestic arbitral awards. No specific recognition decision is required and a foreign arbitral award is recognized simply by the competent execution court taking the award into consideration as if it were a domestic arbitral award. Provisions of the Arbitration Act on the refusal of recognition and enforcement of foreign arbitral awards correspond to those of Article V of the New York Convention.

## 5.2 LITIGATION

The Slovak Republic has a two-level court system composed of the Supreme Court, 8 regional courts and 54 district courts and one Special Criminal Court. The court system is further supplemented by the Constitutional Court. Military courts were abolished as of March 1, 2009, and their competences were transferred to the general courts.



District courts are competent to try proceedings in the first instance. Regional courts hear cases as appellate courts and only certain specific cases as the court of first instance. The Supreme Court has the function of an appellate court and appellate review court. Being the supreme judicial body, the Supreme Court never acts as the court of first instance. Apart from civil matters the courts also decide on criminal matters.<sup>31</sup>

The civil procedure is governed by the Civil Code of Procedure.<sup>32</sup> Under the Civil Code of Procedure courts decide in civil, commercial, employment, family and economic disputes. They also review the lawfulness of decisions by administrative bodies. Cases tried by district courts and regional courts as courts of first instance are decided by a single judge. Cases tried by regional courts as appellate courts and by the Supreme Court are decided by panels of 3 or 5 judges. The Civil Code of Procedure distinguishes between

<sup>30</sup> The New York Convention was published by the Order of the Ministry of Foreign Affairs under No. 74/1959 Coll. and become effective in the Czechoslovak Republic as of October 10, 1959.

<sup>31</sup> The criminal procedure is governed by Act No. 301/2005 Coll. the Criminal Procedure Code.

<sup>32</sup> Act No. 99/1963 Coll. the Civil Procedure Code.

an appeal as an ordinary remedy and extraordinary remedies such as appellate review, extraordinary appellate review and reopening of a case.

The civil procedure is usually a time-consuming process and may take up to several years. Serious delays may occur. Arbitration therefore often represents a faster and cheaper option. Note that apart from the court fee, the losing party in a case is also obliged to pay the attorney representation fees of the opposing party.

A new development in the Slovak justice system came into effect on 1 January 2012 and specifically applies to the publishing of judicial decisions. In the past, publication of court decisions was not obligatory but more of a right. The act of changing this right into an obligation created new opportunities to check the legality of judicial decisions, while preserving the rights guaranteed by the Constitution of the Slovak Republic.

The principle of public proceedings in the courts is nothing new in Slovak law, but until 2012 public proceedings were regarded as being only within the rights of people involved in such hearings. Public hearings provide greater confidence in the justice system among the public. This trust was reinforced previous year as a result of the obligation to publish final judgments referred to above. Disclosure will be provided by the Ministry of Justice of the Slovak Republic through its website.<sup>33</sup> All personal data will be anonymized to ensure the protection of personal data and privacy.<sup>34</sup>

## 6. CONCLUSION

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Since the 1998 general election, the Slovak Republic has undertaken profound economic and social reforms in many areas, ranging from public finance to employment, education, health and social security. Since adopting these reforms, the Slovak Republic has become one of the fastest growing economies in the European Union.

The influx of foreign direct investment into the Slovak Republic has grown continuously since 2000, with many foreign investors only recently discovering Slovakia. Today the country is recognized as one of the most attractive investment destinations not only in the growing Central and Eastern European markets but in Europe as a whole.

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<sup>33</sup> <http://www.justice.gov.sk/Stranky/Sudne-rozhodnutia/Sudne-rozhodnutia.aspx>,

<sup>34</sup> Act No. 757/2004 Coll. on Courts.



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