

CONCLUSIONS AND RECOMMENDATIONS

Slovakia has made considerable progress towards establishing a market-based economy and the country has shown signs of modest economic growth since 1994. The Government continues to follow prudent monetary and fiscal policies, which have resulted in a falling inflation rate and a relatively low budget deficit. Slovakia carries a particularly heavy adjustment burden because of the substantial orientation of its industrial sector towards the former socialist markets. Despite rapid formal privatization, progress in the restructuring of enterprises has not been fully satisfactory due to the continued involvement of the State, the weakness of the financial sector, ineffective bankruptcy procedures and insufficient direct foreign investments.

The longer-term development of the Slovak housing sector will depend on sound macroeconomic policies and on microeconomic factors, such as the degree of restructuring of the housing industry and the system of housing finance. Growth and investment in housing can be achieved only if the sector becomes sufficiently competitive and attractive. Accelerating the restructuring of the housing sector along market principles is closely linked to the stabilization of the economy. But it also depends on the Government's commitment to channelling funds into new housing construction and renovating the existing housing stock, as well as to undertaking necessary, although in the short-term undoubtedly unpopular, steps, such as liberalizing rents and recovering the cost of housing services.

1. Housing policy reform

During the transition period **the State policy on housing** has emphasized: privatization of municipal and cooperative housing, restructuring and privatization of the housing industry, reduction in supply and demand subsidies, and general deregulation of the housing markets. Prices of land, materials and labour have been liberalized and the previous uniformity of land and house prices has been replaced by differentiated systems reflecting location, accessibility and amenities.

Although private development has been permitted and long-standing discrimination against private-sector housing provision discontinued since 1992, the recession and macroeconomic adjustments have kept new housing construction down. Housebuilding reached an all-time low during the transition. During this period house prices have increased much faster than incomes. The present low purchasing power of the population coupled with the continuing housing shortage in large urban centres, indicate a growing housing crisis. Though some positive signs were evident in 1996, the housing system has still not recovered from the "shock therapy" of the transition.

Housing has not been considered a political priority in Slovakia during the transition. Successive Governments have failed to implement a systematic and compre-

hensive housing policy reform to boost housing construction and make housing markets operate efficiently. Despite significant progress in the privatization of the housing industry, the deregulation of supply and the liberalization of market conditions, housing problems are still in evidence in the form of:

- Uncompleted dwellings;
- Shortage of affordable housing in urban areas;
- Deterioration of the existing housing stock of all tenure types;
- Lack of adequate investment mechanisms to sustain the quality and vitality of the housing sector.

A comprehensive and efficient national housing policy needs to perceive **housing investment as an engine for economic growth and social development**. There is also a need for economic and environmental aspects to be at the core of such a policy to show that the housing sector can provide labour mobility and facilitate economic transition within regions and sectors, improve macroeconomic performance, and promote innovative financial systems and sustainable development. The housing sector, consequently, needs to be integrated and given priority in the State economic programmes and strategies.

Slovakia's housing policy is still dominated by a centralized approach. An alternative strategy aimed at **increasing pluralism, decentralizing decision-making and establishing efficient markets** for housing services is needed to counteract this trend. And there are other huge tasks ahead: strengthening the role of private and non-profit organizations, facilitating rent reform and establishing an independent and self-financing housing sector.

The national policy document "**Conception of State Housing Policy 2000**" addresses in policy terms some of the major problems in the transition from a centrally planned to a market-based housing system. The policy establishes the "enabling approach" to housing, where individuals assume primary responsibility for the provision of their own housing, while the State and municipalities create favourable conditions for private investment and initiative. Recognizing the social responsibility of the welfare state, the policy document targets housing assistance to low-income households and other disadvantaged groups, i.e. young families, pensioners and persons with disabilities.

In addition to advocating the privatization of municipal and cooperative housing, the policy document argues that deterioration of owner-occupied housing needs to be prevented through the development of efficient maintenance and management practices. However, it does not elaborate nor does it propose financial and legal frameworks to implement these principles. The renovation of prefabricated housing in the peripheral housing estates of the urban areas is recognized as a priority, but the policy

document again lacks specific recommendations for local housing programmes and actions to address these issues systematically.

The production of new housing is today substantially below the target of 90,000 new units by the year 2000. Similarly, although the policy document emphasizes the need to stimulate the housing sector through economic instruments, subsidies, loans, tax and financial incentives, few such instruments have actually been applied.

In short, although the “Conception of State Housing Policy 2000” forms a constructive and consistent basis for State action in the housing sector, few of its policy elements have so far been implemented. In practice the focus has been on the privatization of municipal and cooperative housing.

The emphasis on the **privatization of the existing housing** stock during the transition, although understandable in this political context, has so far failed to encourage people and businesses to make innovative improvements to all aspects of housing delivery and distribution. As a result of the ongoing privatization, it is expected that, by the year 2000, less than 10 per cent of the housing stock will remain in the hands of municipalities. This is not consistent with the target of 20 per cent public rental housing set out in the “Conception of State Housing Policy 2000”. The sale of dwellings to sitting tenants at below-market prices does not encourage the development of a well-functioning housing market. To a certain extent this policy has also legitimized inequalities that existed during the communist period. During this period households with higher incomes or with positions in the party or public hierarchy occupied the better and larger housing units in more attractive locations. This system of housing as a reward for services is to a certain degree maintained and strengthened through the privatization process.

The **income that municipalities receive from the privatization of their housing stock** does not in any way compensate for the tremendous loss of public assets. The municipalities will find it particularly hard when they will have to invest in the construction of new public-sector housing to meet national and local social housing objectives. In addition, mixed ownership within buildings resulting from privatization combined with unclear property rights and responsibilities and a lack of legal regulation of the management and administration of mixed ownership housing, are already representing formidable challenges in multi-storey flats.

Housing demand and supply are local factors. In particular, the supply of housing services both in the market for new housing and in the resale market respond to changes in local demand—the rate of household formation, income policies and consumer preferences. These demand changes undermine the dynamics affecting the construction of new housing and the day-to-day management of the existing housing stock at the local level. **Municipal housing programmes** are therefore prerequisites both for the practical implementation of the State housing policy and as a firm basis for private-sector engagement in the housing sector. The main purpose of such local strategies is not municipal housing construction, but should be to broaden the housing agenda and to provide equal economic and social opportunities for the population in different localities. Local housing programmes should lead to the supply of housing that matches the distribution of incomes within the local population, thus reducing the need for subsidized accommodation. The State needs to encourage and assist municipalities and regional authorities in the practical formulation and implementation of such programmes.

The housing conditions of the **Gypsy population** also raises problems. There are many squatter settlements completely occupied by Gypsies. Some international assistance programmes are trying to address the problem. However, more specific action is needed at the national level. There is very little information available about this problem.

The lack of a **sound information base** to underpin State policy instruments and their application is a significant bottleneck in Slovakia. Without detailed information about the existing housing situation and the real need for housing from a quantitative and qualitative standpoint, and about household income and construction costs, it is hard to estimate demand and needs and set policy goals and priorities for the years to come. **The creation of an adequate information and monitoring system is a prerequisite for the preparation of comprehensive and realistic national, regional and local housing programmes.** In preparation of a conceptual and organizational framework for such databases, there is a need for closer cooperation and coordination with all parties concerned, that is central and regional local authorities, cadastre and land registration offices, real-estate agencies and private bodies, to ensure consistency of data, harmonized compilation of information and avoid duplication of work. The State should, however, take overall responsibility.

Box 1. Housing policy reform—recommendations

A. National housing policy

- 1.1 *The housing sector should be given priority within the framework of Slovak national policies and strategies. The contribution of housing to economic, social and environmental policies should be fully recognized.*
- 1.2 *Present State objectives and strategies for housing reform should be supplemented and transformed into a comprehensive national housing policy document. This document should:*
 - Have a long-term perspective (8-10 years), showing forecasts on housing needs, demand and development;*
 - Set out a specific 4-year action plan spelling out the State's priorities, responsibilities and proposed actions.*

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- 1.3 *The national housing policy and particularly the action plan should focus on:*
- Making the necessary changes in the legislative framework (see box 3);*
 - Modernizing institutional structures and procedures (see box 4);*
 - Introducing financial and investment tasks, clearly targeting new construction and maintenance of the existing housing stock (see box 5);*
 - Targeting financial assistance for housing on clear social and welfare objectives (see box 5);*
 - Encouraging and assisting the development of practical, action-oriented municipal housing programmes;*
 - Facilitating private-sector involvement in all elements of the housing sector.*
- 1.4 *The Government should clarify the responsibilities of ministries and municipalities, and set up and maintain a database to draw an accurate picture of the national and local housing situation. Such a database should contain information on:*
- *The housing register;*
 - *Household formation, size, structure;*
 - *Distributional aspects of housing;*
 - *The quality of the housing stock;*
 - *Housing costs (construction and repair/renovation);*
 - *Rent levels;*
 - *Housing market indicators (turnover, prices of housing and land).*
- 1.5 *A national sample survey for the housing sector should be carried out every four years, to coincide with national censuses.*

B. Privatization of the housing stock

- 1.6 *The present practice of privatizing rental dwellings should be reviewed urgently. Elements to be considered are:*
- *Privatization as a policy element in the broader national housing policy (social, economic, legal, administrative);*
 - *Defined time-frame for and phasing-out of the privatization process;*
 - *Transfer of full powers for privatization with respect to volume of sales, price and implementation to the municipalities;*
 - *Information and assistance to new private owners (present and future legal and financial obligations, practical advice and tools for administration and management);*
 - *Follow-up post-privatization programmes providing financial and technical assistance to associations in mixed ownership buildings.*

C. Municipal housing programmes

- 1.7 *Larger municipalities especially should have to draw up and implement municipal housing programmes to be eligible for financial assistance from the State for local housing infrastructure.*
- 1.8 *The State Regional/District Offices should assist and monitor the municipal programmes.*
- 1.9 *Municipal housing programmes should have the same structure (programme/section plan), and time-frame (10 years/4 years) as the national policy (see recommendation 1.2), and should focus on:*
- *Local housing problems;*
 - *Setting priorities;*
 - *Setting yearly goals for new housing construction;*
 - *Setting yearly goals for repair and renovation of existing housing stock with special emphasis on energy conservation;*
 - *Developing production programmes for new construction and repair/renovation;*

- *Developing strategies to strengthen cooperation with the private sector and market competition in the delivery of housing services;*
- *Developing and implementing policies for land acquisition and infrastructure development to support housing development;*
- *Assisting low-income households and groups with special needs such as the elderly, single parents, and people with disabilities and the Gypsy population to live in adequate and affordable housing.*

D. Municipal financing

- 1.10 *The present system of financing municipalities should be reviewed urgently. Long-term, stable support for municipal activities and housing development (and indeed all other long-term municipal activities) can be secured only if there are stable and predictable forms and sources of funding.*
- 1.11 *The State should develop systems for financial assistance (loans, grants) to help municipalities acquire land and provide the technical infrastructure necessary to implement the municipal housing programme.*

The policy efforts recommended in box 1 will address the present fragmentation of responsibilities with respect to housing. Strategic planning of investments and coordination of programmes and policy efforts in the sector, however, do not imply a return to the old socialist system of centralized investment, production and allocation of housing under rigid macroeconomic regulation. Rather, they need to be perceived as an integral part of a strategy aimed at **increasing pluralism, decentralizing decision-making and establishing efficient markets for housing services**. The implementation process implies a new enabling role for central and municipal governments, strengthening the role of private and non-profit organizations, and establishing an independent and self-financing housing sector.

2. Existing housing stock and new production

The transformation from the centrally planned system, where housing construction, maintenance and repair were heavily subsidized by the State, to a market-based housing system, where households are expected to pay the full price of housing services, has created a number of problems in the housing sector. This difficult process of adjustment is marked by an overall shortage of funds for housing investment, growing housing needs and affordability constraints. Overall, the supply of new housing has dropped drastically, and the physical condition of the existing housing stock has deteriorated. Large-scale privatization of municipal and cooperative housing during the transition period, accompanied by legal uncertainty over property rights and future maintenance responsibilities, has contributed to the growing backlog in the modernization and renovation of multi-family dwellings.

At the end of 1997, **Slovakia's existing housing stock** amounted to approximately 1.8 million dwellings with an estimated vacancy rate of 5 to 9 per cent. Accurate data on the distribution and quality of housing in different tenure types are not available. Most data can be derived from the 1991 census. In the light of ongoing radical socio-

economic changes affecting housing costs, household incomes and the operation of the housing market, these data are not considered reliable either for a description of the present situation of the housing sector, or as a basis for the formulation of future policies, strategies and actions to address existing housing problems.

The dwelling stock, particularly multi-family housing, is in poor physical and technical condition. Public housing finance has been restructured during the transition period in line with efforts to reduce the budget deficit and State support for the sector. Rents in public housing are kept low and investment in existing public housing is clearly insufficient. Furthermore, the majority of households in the owner-occupied sector have difficulties financing energy and operation costs, let alone modernizing their homes. More than 30 per cent of the dwellings in the multi-family housing stock are in urgent need of extensive renovation to improve their safety, their energy efficiency and their quality.

The housing sector has a large impact on national energy consumption and, hence, on Slovakia's macroeconomic situation. As more than half the dwellings are over 25 years old and no major renovation or energy efficiency investment has taken place during this period, their insulation does not meet the current standards applied in western countries. Considerable energy savings could therefore be achieved with simple energy-saving measures. There is, however, a lack of legal and administrative frameworks, particularly at the local level, to implement energy-efficiency measures.

After 1991, **new housing construction** collapsed in the public and cooperative sectors. Even in the private sector housebuilding dropped dramatically. Data indicate that the private sector started to come out of the recession in 1997-1998, though most construction activity has centred on the provision of upscale housing for high-income households. Growing construction costs, inflation and job insecurity have contributed further to the decline in housing construction. In the private sector Slovakia has a long tradition of individual "do-it-yourself" house build-

ing. With the increase in the prices of building materials and the lack of mortgages, this type of housing provision has now lost its importance. Cooperatives and public investors lost State subsidies and favourable credits, which ultimately has reduced the level of public housing provision. In general, the main reason for the collapse of new housing construction during the transition can be explained by the absence of a **credit system for private and public developers**. In addition, there are considerable **legal restrictions on private sector activity in the housing sector**. For example, rent control has significantly contributed to eliminating private rental housing. In addition, extensive tenants' rights make investments in this sector less attractive.

The market for new housing is rather depressed and underdeveloped because: developed land for residential construction in cities and towns is scarce; there is a lack of developable land with clear property title due to the backlog in the computerization of land and real property

legislation; and there are no strategic land development policies at the local level. Moreover, the lack of appropriate financial instruments, the high housing costs in urban areas resulting from the housing shortages mean that few Slovak households can afford new housing.

Although there are few statistics, several indicators underline the need for **more new housing**:

- To maintain the provision of housing in 2000 at its 1991 level, 24,000 housing units should be built every year—the recent yearly average rate is 6,000;
- The average household size in Slovakia is 2.9 persons, which is high compared to western Europe. This figure is therefore likely to fall in the future. This will generate a bigger demand for new housing;
- The available statistics indicate overcrowding, with 1.12 households per dwelling.

Slovakia is estimated to have a deficit of approximately 180,000 dwelling units.

Box 2. Existing housing stock and new production—recommendations

A. New housing construction

- 2.1 *As a central element of the national housing policy, the Ministry for Construction and Public Works should have special responsibility, in cooperation with relevant public and private bodies, for meeting economically justified targets for new housing construction both in a long-term perspective (10 years) and yearly for the duration of the action plan (4 years).*
- 2.2 *New production targets should be set for 1999 and onwards.*
- 2.3 *Recommended changes to the framework conditions to support new construction are shown in box 1 and boxes 3 to 5.*
- 2.4 *To facilitate the recovery of new housing provision, municipal housing programmes need to focus on:*
 - *Specific housing targets for each local housing market area in line with local community development objectives and local housing responsibilities;*
 - *Housing strategies providing an adequate choice within local housing markets with respect to housing type and location, and between buying and renting;*
 - *Improvement and innovation in housing construction, design and planning;*
 - *Competition among private construction firms in the provision of new housing, thus achieving lower and more stable construction costs.*

B. The existing housing stock

- 2.5 The national housing policy should contain detailed and specific programmes addressing the urgent need for management, repair and renovation of the existing housing stock. Such programmes should focus on:
 - Identifying the scale of the task;*
 - Proposing specific changes to the legal framework (see box 3), to the financial framework (see box 4) and to institutions and procedures (see box 5);*
 - Proposing recommended standards and priorities for repair and renovation work (e.g. energy efficiency/insulation, structural, roofs, windows).*
- 2.6 The larger municipalities should be required to elaborate, as part of their housing programme, specific action plans for repair and renovation of the existing housing stock. Such action plans should be a prerequisite for the right to draw on national financial assistance programmes for repair and renovation.
- 2.7 The sale of public sector rental housing should, irrespective of the price charged, be made conditional on the new owner's entering into a legally binding agreement to carry out specific improvements to the house within a limited time, e.g. four years.

3. The legal framework

The housing market cannot operate efficiently and private investment in housing will not take place unless **legal regulations are harmonized and private interests protected by law**. Despite a great deal of effort to create a legal framework for a market-based housing sector, as reflected in new laws and government regulations and their subsequent revisions, Slovakia's overall legislative system related to housing needs to be further developed to make it fully comprehensive and consistent.

It needs to be recognized, however, that legal changes and the legal infrastructure for the development of a market-based housing sector have had to be introduced over a short period of time. Parallel to this process, many legal reforms in the economic and social spheres in the 1990s have had a profound impact on housing. The development of a comprehensive legal framework for the housing sector must necessarily be perceived as a dynamic process driven by constant adjustment. This process should nevertheless take place within an overall concept of necessary legal instruments.

At the moment the legal framework remains particularly vague with respect to **title to land and buildings and condominium legislation** regulating the rights and responsibilities in privatized multi-family buildings, and the mechanisms and instruments for financing and organizing repair and maintenance in this new tenure form. Buildings with mixed public/private ownership are a particular problem. The lack of a clear legal framework for this new type of ownership will undoubtedly lead to dis-

putes and lawsuits, which represent an enormous burden in terms of cost delay in the legal system, and further degradation of the quality of the housing stock.

One particular area which requires the attention of policy makers and housing administrators is the allocation and use of public housing. Low costs and generous rights to pass on public housing tenancies to relatives contribute to the low "turnover" in public housing. This means that there are few vacancies for people in need. **Excessive protection of tenant's rights** in restituted and public rental housing, as contained in the Civil Code, creates significant constraints for landlords. Very complicated rules regulate eviction, such as the need to provide "substitute housing". These provisions are preventing new rental housing from developing and are hindering the management of existing rental housing. Such provisions also create unforeseeable risks for those who lend credit for improving or purchasing real property. In addition, rents and services related to rental housing are low and consume only a fraction of household budgets. In general, the legal regulation of rental housing discourages any significant investment in the rental sector.

Despite the legal provisions to create a **State housing fund**, it is generally recognized that financial support is inadequate to meet growing housing development costs in Slovakia. The mortgage market is still very depressed. It is estimated that to raise the SK 20 billion a year needed for mortgages, State subsidies need to be tripled or quadrupled. The new fiscal reality of a tight budget requires a new approach to mobilizing funds in the housing sector. This new approach needs to be addressed through changes in the legal framework.

Box 3. The legal framework—recommendations

A. Institutional regulations

- 3.1 *The Ministry for Construction and Public Works should, as part of its responsibility for the national housing policy, be required to evaluate the existing legal regulations that, directly or indirectly, affect the housing sector. In particular, this analysis should focus on missing elements in the main legislation and existing confusion and the need for transparency with respect to rights and responsibilities.*
- 3.2 *The Act on Municipal Self-Government should be reviewed to clarify the division of responsibility for housing between the State and municipalities. In particular, the Act should address the need to secure stable funding for municipalities.*
- 3.3 *The new Act on Planning and Building, giving municipalities clearer responsibility and powers in planning and building regulation, should be enforced as quickly as possible.*
- 3.4 *The Act on Bratislava and the Covenant of Bratislava should be reviewed urgently to simplify and clarify the powers and the authority of the two levels of the local government in the capital.*

B. New housing development

- 3.5 *Ownership of (parts of) buildings and the land they occupy should be legally regulated for different types of tenure as a prerequisite for mortgage lending and the use of land as collateral.*

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- 3.6 *Housing development liability law deposits, paid by future homeowners to housing companies, cooperatives, etc., must be given special protection by law to ensure that citizens do not lose their entire savings if the company goes bankrupt.*
- 3.7 *In Slovakia, non-profit housing companies or cooperatives could be a valuable starting point because there are already many housing cooperatives, although they are very inefficient on account of the existing legislative framework. An appropriate law should therefore be drafted or adapted from neighbouring countries where such legislation has already proven its effectiveness. It will be crucial for non-profit housing companies to strictly observe the new non-profit housing legislation. At the core of such legislation is the incompatibility of ownership or dominant influence of a housing company with simultaneous ownership of or influence on a building company, real-estate company, etc. Other critical aspects are the calculation of the price or rent of housing on the basis of a cost price plus a minimum margin of 3 per cent, and the official auditing of all housing associations on an annual basis. As they are non-profit companies, they are generally exempt from income tax.*
- 3.8 *Legislative improvements should be made in the following areas to stimulate the growth of a capital market for housing projects:*
- 3.8.1 *Legal regulation on eviction: The Civil Code should be amended to abolish the requirement to provide replacement housing in the event of eviction.*
- 3.8.2 *Combined ownership of a building and the land it occupies: Separate ownership of a building and ownership/lease of the land it occupies should not be legally possible.*

C. The existing housing stock

- 3.9 *Control over the allocation and use of public rental housing should be strengthened. The swapping of flats without the explicit approval of the municipal housing authority should not be allowed.*
- 3.10 *The laws regulating the privatization of municipal and cooperative housing should be amended to include the following provisions:*
- *It should be a condition of the sale that the new owner accepts legally enforceable, realistic obligations for future repair and upkeep, including proportional responsibility for common space;*
 - *It should also be a condition of the sale that the new owner fully accepts the obligation to enter into a formal condominium agreement for housing in a block of flats;*
 - *The sales price needs to be further differentiated in accordance with location, quality and amenities.*
- 3.11 *A condominium law should be enacted as a framework for the efficient management of co-owned buildings. It should address, in particular:*
- *Co-owners' liability to pay, maintenance responsibility and the right to carry out modifications in the unit owned;*
 - *Sanctions against owners who fail to meet their legal and/or contractual obligations;*
 - *Necessary mechanisms and instruments to finance and organize the repair and maintenance of buildings, including common space;*
 - *Special regulations for condominiums with mixed public/private and private/cooperative ownership.*
- 3.12 *A separate act on cooperative housing should be considered. Such a law should provide independence for housing cooperatives with respect to financing, management and privatization of existing cooperative units. It should further enable the break-up of large housing cooperatives into smaller societies able to involve their members in the management and operation.*
- 3.13 *The Civil Code regulation on tenant protection should be reviewed urgently. A new regulation should strike a balance between the rights of tenants and the rights of owners when tenants are in clear breach of general legal requirements, e.g. payment of rent, or in breach of the signed tenancy agreement.*

D. Financial regulations

- 3.14 Existing legislation regulating rents needs to be revised along the following lines:
- Rents in the private sector need to be liberalized;
 - Rents in the public and cooperative sector need to be differentiated according to location and quality of housing;
 - Rent levels should ensure cost recovery for housing services in the public rental sector.
- 3.15 General income tax exemption for housing cooperatives should be regulated in a new law on non-profit housing activity (see recommendation 3.7).
- 3.16 The laws on taxation should be reviewed to introduce tax incentives for private investment in the housing sector.
- 3.17 Allowing legal entities to join the contract saving system should help to raise financing for major housing projects.
- 3.18 A new property appraisal system based on market values should be introduced. The legal regulation should restructure the property tax system and eliminate tax inequities.
- 3.19 Tax incentives should be considered to ensure the effective use of existing housing and reduce vacancy levels.
- 3.20 The introduction of a differentiated land tax should be considered. The objective should be to facilitate the recycling of land in urban areas under heavy development pressure.
- 3.21 Public grants should not be awarded to companies that are not subject to the non-profit housing legislation. Housing grants to physical persons should be means-tested.

4. The institutional framework

Institutional structures throughout the Slovak housing sector from State level to the private sector are vital for a functioning, market-oriented housing sector. The lack of such an institutional element at key points in the housing sector is slowing down the transformation of the Slovak housing sector. The creation of institutions does not in itself secure efficient structures and procedures. Staff motivation and staff qualifications and attitudes are also critical for efficient functioning. (Staff training and assistance should also be given high priority in the further transition of the housing sector.)

A permanent committee with responsibility for housing in the National Council is considered essential for formulating, implementing and evaluating any national policy on housing. The Government has expressed its intention to establish such a committee. This should be a matter of urgency. The **distribution of responsibility for housing matters** between five major ministries blurs their authority and responsibility for housing.

The decentralized structure of Slovakia with strong regional and district levels is an advantage. But with the generally small municipalities with limited administrative capacity, there is a danger that strong regional State instructions will dominate municipal housing policies and solutions. The State Regional and District Offices are nevertheless considered to be necessary and positive elements in the further transition of Slovak housing.

Planning and construction of housing are in many cases dependent on cooperation and decisions across municipal boundaries, and thus have a regional impact. In particular, this is the case for technical infrastructure and land use. The large number of small municipalities in Slovakia means there is a **need for inter-municipal, regional cooperation**.

Municipalities are a vital element in the implementation of any State housing policy. However, at present they hinder the further transition of the Slovak housing sector. Three main problems are evident:

- Lack of any real possibility for long-term municipal planning and budgeting;
- Lack of satisfactory municipal political and administrative structures;
- Lack of clear municipal housing policies.

The freedom of municipalities to plan and budget long-term is today severely restricted. The main reason for this is the present method of funding their activities. The State provides most funds through the yearly national budget. Such funding, decided early in the budget year, and subject to national political discussions, is not a rational financial base for local self-government. Municipalities cannot be expected to decide on and implement long-term investment and development policies under such budget conditions.

Slovak municipalities have not made the institutional changes needed to carry out their new role in the housing sector. At least the larger municipalities urgently

need to carry out institutional changes, within both their political and administrative systems. Very few municipalities have adopted clearly structured local housing policies. This is due partly to the lack of municipal institutions with clear responsibility for such policies and partly to the limited freedom that municipalities have to formulate and implement such policies (e.g. continued State responsibilities, inadequacies in municipal funding).

The continued existence of **housing maintenance companies** within Slovak municipalities is a leftover element of a State-dominated housing sector. The continued existence of such de facto monopolies effectively blocks the emergence of private companies offering services to the housing sector.

These general comments also apply to the **capital city, Bratislava**. Moreover, the strong role of **autonomous districts** within the capital city makes it even more difficult to draw up and implement necessary city-wide strategies, e.g. for housing. The present system is not considered conducive to efficient housing development. The

distribution of responsibility and authority should be revised, so that the districts can advise the city on the drafting and implementation of city-wide housing policies. The city authorities should, however, be free to make the final decisions. In the final analysis, it would not benefit the citizens of Bratislava or indeed Slovakia itself if sound city-wide housing policies in the capital were hindered by specific local district interests.

Commercial interests in housing are rapidly forming influential national institutions in Slovakia. Establishing national organizations to represent the interests of **private owners and tenants** is proving to be a more difficult and slow process.

Further privatization and democratization of **cooperative housing** should be encouraged within a clear organizational structure, which ensures the future management, administration and maintenance of this housing stock. The present development of member and non-member owner/occupier status in cooperative housing blurs the division between cooperatives and condominiums.

Box 4. The institutional framework—recommendations

A. National institutions

- 4.1 *A permanent committee with clear, overall responsibility for housing should be established within the National Council.*
- 4.2 *The Ministry for Construction and Public Works should be given a new mandate clearly defining its central administrative responsibility for formulating and implementing a coordinated national housing policy. Its new responsibilities should include such policy elements as:*
 - *Rent policy (in cooperation with the Ministry of Finance);*
 - *Financing of municipal infrastructure;*
 - *Financial housing policy instruments, such as the State Housing Development Fund;*
 - *Coordination of all municipal housing programmes and projects, including infrastructure at regional/district levels.*
- 4.3 *The administrative capacity and competence of the Ministry for Construction and Public Works should be strengthened.*

B. Regional institutions

- 4.4 *The role of the State offices at regional and district level in coordinating municipal housing programmes and projects should be strengthened (see recommendation 4.2).*
- 4.5 *The need to establish democratically elected, self-governing bodies at regional level should be reviewed urgently.*

C. Municipal institutions

- 4.6 *Cities, towns and larger municipalities need to restructure their political and administrative bodies responsible for the housing sector immediately. Such restructuring should focus on:*
 - *Establishing a permanent committee with full responsibility for housing within the city council;*

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- *Creating a housing department/unit with overall administrative responsibility for municipal housing policy and its implementation.*

4.7 *Municipalities should withdraw from the provision of management and maintenance services to the private housing sector through their housing maintenance companies. The objective in the "Conception of the State Housing Policy 2000" that "the principal decisions on the economy of the institution or company which administrates the housing stock should be left to the municipal councils" should be understood to mean that municipal housing maintenance companies should be restructured into one unit responsible for the municipal owned stock, and a number of privatized companies should offer services to the private housing sector.*

D. Municipal institutions in Bratislava

4.8 *The division of responsibility and authority for housing and housing-related issues between the city and its districts should be reviewed urgently. A new division along the following lines should be considered:*

- The city board and council should have complete, decisive and final powers on the city's housing policy and its implementation;*
- The districts should retain advisory powers on housing.*

E. Private sector institutions

4.9 *The State should, in cooperation with the larger municipalities, encourage the creation of non-profit housing associations. Such associations should play an important role, particularly in social housing. The State should prepare the legal, financial and tax basis for such associations.*

4.10 *The interests of tenants are not represented in any local or national organization. The State should actively encourage the establishment of such interest groups.*

4.11 *The cooperative housing sector should be considered an important element in the future private-sector organization of Slovak housing. Further privatization and democratization of cooperative housing should be encouraged within a clear organizational structure ensuring stable, satisfactory management, administration and maintenance of this housing stock.*

5. The financial framework

The levels of expenditure on housing in Slovakia, whether measured as total investment or as current expenditure, are low. The present levels are insufficient to ensure a healthy housing system, meeting housing demand and needs on a sustainable basis. At the root of the problem lies a combination of current economic circumstances and political priorities and Slovakia's history of a centralized, heavily subsidized housing system. The tradition of the past 50 years has led to a situation where households do not willingly accept to pay the real costs of their housing.

There is no **commonly agreed framework** within which housing finance can be clearly analysed and debated. The information basis for such analysis is also weak. The present structure of **public expenditure on housing** is strongly influenced by the ongoing transition from old programmes of energy subsidies and subsidized loans to a new market-oriented sector. Within this transition process, individual programmes, both old ones to be phased out and new ones being brought in, seem to be developing in isolation rather than as coordinated parts of the policy framework set out in the "Conception of the State Housing Policy by 2000".

The current forecast is that about 75 per cent of Slovak homes will be part of a market-run system of owner-occupation by the year 2000. This can only be achieved, however, by the present policy of heavily discounted sales of public-sector housing. A natural, sustainable and healthy owner-occupied sector covering 75 per cent of households is not yet a realistic prospect.

The **State Housing Development Fund** is, in principle, a satisfactory system for focusing, managing and sustaining certain public-sector subsidies on housing. It should be acknowledged, however, that it will be many years before the Fund reaches the goal of "self-financing", if indeed this goal can be reached at all. The Fund's current operation appears to be insufficiently targeted on the right households. Neither does it seem to be contributing towards the construction of new rental housing to any significant extent.

The delay in introducing an efficient **housing allowance system** is preventing a substantial **rent increase** being pushed through in public housing. The stated objective of introducing a national housing allowance system to support both housing costs and energy costs will probably give confused signals about housing and energy consumption.

A cost-based rent must be set and the rights and duties of landlords and tenants defined in legislation before an efficient rental housing market can develop.

If cooperatives, in the form of non-profit organizations, become involved in housing development again, their method of calculating rents has to be regulated (e.g. rent covering cost plus three per cent profit margin to cover administration and management costs).

As rent consists mainly of two factors, the payback of the building loans and the building's operating costs, a system has to be developed, backed by law, to allow a co-operative to continue charging for payback of the loan even after it has expired, so that it can raise money to finance new flats. This should be regulated in the same law that regulates the activities of limited companies or co-operatives as non-profit organizations purely for housing purposes (e.g. law for non-profit companies in the housing sector). The cost-based rent has to be supported by the above-mentioned housing allowance system to avoid social problems.

Tax depreciation models for renovation and modernization also have to be developed. The investment sum that can be written off per household member should be limited, so that society does not become more polarized. Furthermore, the State needs to limit depreciation to gen-

erate State income to improve the financing of the system of home grants, which should be decentralized.

The contract savings scheme has helped generate capital for housing production and purchase. The system encourages responsible habits of saving and paying for one's housing consumption. The scheme is, however, also vulnerable, particularly to inflation and to political decisions about the appropriate subsidy or premium. The decision to withdraw the premium from non-housing savers has raised considerable discussion on the sustainability of the savings scheme. **The mortgage system** plays as yet only a marginal role in the national housing system. Active State backing for this system would accelerate the transition in the housing sector.

Public housing has insufficient income to tackle its backlog of improvements and repairs. Income for such purposes conventionally comes from two sources: rents and subsidies. Public housing rents are presently insufficient to cover costs. They need to be liberalized and differentiated urgently. **The present privatization of public housing** is not only very generous but also, and perhaps more importantly, takes insufficient account of both the future liabilities of owner-occupiers and the complexity of administering these obligations within multi-flat housing.

Box 5. The financial framework—recommendations

State financial instruments

- 5.1 *The Ministry for Construction and Public Works should be instructed, as part of its overall responsibility for housing, to carry out an overall analysis of public and private sector financing of housing. The analysis should focus on volume, sources, destinations and conditions of financing. It should be regularly updated as part of the national housing policy.*
- 5.2 *The operational directives for the State Housing Development Fund should be reviewed:*
 - *Financing from the Fund should be available only to households and non-profit companies regulated by a separate act on non-profit housing activity;*
 - *Income and house-size limits should apply to applicants for all loans and grants from the Fund;*
 - *A greater (specified) proportion of the Fund's resources should go towards new construction of public and private rental housing;*
 - *A specified proportion of the Fund's resources should go towards major repair and renovation of the existing housing stock, based on clear criteria for types and standards of such renovation work (e.g. energy efficiency);*
 - *All national financial assistance (loan and grants) to municipal housing activity, e.g. repair and renovation of existing stock, new construction, acquisition of land for development and technical infrastructure, should be concentrated within the Fund. Such funding should ensure a stable basis for the municipal housing programmes;*
 - *The operational activity of the Fund should be decentralized to the regional level;*
 - *The allocation of the Fund's resources should be more transparent.*
- 5.3 *A system of housing allowances for households should be introduced urgently. In drawing up the operational directives, consideration should be given to:*

(Continued on next page)

(Continued from preceding page)

- Reversing the present policy of covering both housing and utility costs;
 - Tax policies that could and should be advocated;
 - Reviewing the rules for supporting owner-occupiers' housing costs.
- 5.4 *A policy of staged increases in regulated rents to differentiated cost-covering levels should be introduced in parallel to the introduction of the housing allowance.*
- 5.5 *The contract savings scheme should continue to be supported by State premiums. Careful consideration should be given to a return to the original system of paying equal State premiums to all savings whether they are used for housing purposes or not.*
- 5.6 *A system of State guarantees for mortgages should be introduced. This system could be linked to the contract savings scheme by offering stronger guarantees to proven, reliable contract savers.*
- 5.7 *Subsidies to encourage low-income households to become owner-occupiers are not recommended.*
- 5.8 *The present policy of granting sitting tenants the right to buy should be reviewed. The focus should be on a number of elements (see also box 3). Most importantly, the price differential between the sales price and the market price should be significantly reduced.*
- 5.9 *The privatization of blocks of flats to non-profit housing associations should be considered.*

6. Priority of recommendations

The changes recommended in boxes 1 to 5 cover a wide range of housing and housing-related issues. Hous-

ing policy changes will have the biggest impact if the most important and/or the most urgent issues get priority.

The international team of experts has therefore listed the ten most urgent recommendations in box 6.

Box 6. Priorities

1. 4.1: Set up a permanent housing committee within the National Council.
2. 1.1: Consider housing as a priority within national policies and strategies.
3. 5.3: Introduce a national system of housing allowances.
5.4: Introduce rents that cover costs.
4. 3.11: Introduce a law on condominium housing.
3.13: Review tenant protection in the Civil Code.
3.14: Liberalize the Rent Act.
5. 4.2: Concentrate State responsibility for housing.
4.3: Strengthen State capacity and competence on housing.
6. 4.9: Introduce non-profit housing associations.
7. 2.4: Develop municipal housing programmes.
8. 1.11: Provide State financial assistance to municipal investment in land and infrastructure.
1.10: Introduce stable, predictable income for municipalities.
9. 1.4: Establish and fund a data unit for housing statistics in the Ministry.
1.6: Urgently review the present practice of privatizing flats to sitting tenants.
10. 5.5: Continue the contract savings scheme.

7. The Slovak housing profile

Accelerating the restructuring of the housing sector along market principles is undoubtedly closely linked to the stabilization of the economy. But it also depends on the Government's commitment to channelling funds into new housing construction and renovation of the existing housing stock, and to undertaking necessary, although in the short term unpopular, steps, such as liberalizing rents and recovering the cost of housing services. The lack of financial instruments and the shortage of funds during the transition period have contributed to the dramatic decline in housing construction and underinvestment in maintenance and renovation of the existing housing stock. Currently, growing construction costs, inflation and collapsing output are the most significant problems in the supply of new housing. Housing markets are still underdeveloped and housing turnover relatively slow. In the context of transition from planning to markets, it is important to focus future efforts on the best and the most efficient use

of the existing housing stock. Housing solutions need to be perceived as an integral part of social and economic policy measures dealing with social exclusion, unemployment, and the creation of sustainable communities. Consequently, it is important to focus on housing policies that will make housing systems more flexible in the face of economic change, whilst ensuring adequate housing for all households in ways that strengthen good governance and long-term economic capacities.

In short, progress in housing policy reform and the overall process of restructuring the housing sector has, so far, been relatively slow in Slovakia. The country profile graph summarizes the assessment of this transition process from a centrally planned to a market-based sector. Emphasis is placed on several key areas used as indicators of overall progress in housing reform: institutional, legal and economic frameworks, the supply and quality of housing, and responsiveness to housing needs and social objectives.