

ECONOMIC COMMISSION FOR EUROPE

COUNTRY PROFILES
ON
THE HOUSING SECTOR
SLOVAKIA



UNITED NATIONS

ECONOMIC COMMISSION FOR EUROPE
Geneva

**COUNTRY PROFILES
ON
THE HOUSING SECTOR**

SLOVAKIA



UNITED NATIONS
New York and Geneva, 1999

NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

*

* *

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Any data provided under the heading "Yugoslavia" relate to the Federal Republic of Yugoslavia, which, in accordance with General Assembly resolutions 47/1 and 47/229 of 22 September 1992 and 5 May 1993, respectively, cannot continue automatically the membership of the former Socialist Federal Republic of Yugoslavia.

ECE/HBP/111

Copyright © United Nations, 1999
All rights reserved
Printed at United Nations, Geneva, Switzerland

UNITED NATIONS PUBLICATION

Sales No. E.99.II.E.20

ISBN 92-1-116722-1

CONTENTS

	<i>Page</i>
PREFACE.....	v
CONCLUSIONS AND RECOMMENDATIONS.....	vii
<i>Chapter</i>	
I. FRAMEWORK FOR THE HOUSING SECTOR.....	1
A. Politics and progress in economic restructuring.....	1
B. Trends in urban and rural development: new challenges.....	2
C. Social development.....	4
D. Housing reform.....	6
II. EXISTING HOUSING STOCK AND NEW HOUSING CONSTRUCTION.....	9
A. The existing housing stock.....	9
B. Tenure structure and housing markets.....	11
C. New housing construction.....	13
III. FINANCIAL FRAMEWORK.....	17
A. Overview of housing expenditure.....	17
B. Public expenditure on housing.....	18
C. Owner-occupation.....	20
D. Public housing.....	23
E. Cooperatives.....	24
IV. LEGAL FRAMEWORK.....	25
A. The legal framework for owner-occupied dwellings.....	25
B. Privatization, division of rights and responsibilities in the cooperative and rental sector.....	25
C. Legislation regulating the development process and the financial aspects of the housing sector.....	27
V. INSTITUTIONAL FRAMEWORK.....	31
A. Distribution of responsibility for housing.....	31
B. National public sector institutions.....	32
C. Local government institutions.....	34
D. The private sector.....	35
<i>Annex:</i> References.....	39

TABLES

1. Key economic indicators.....	1
2. Urban settlement structure and population growth, 1970-1994.....	3
3. Demographic indicators.....	4
4. Housing distribution indicators in selected countries in transition, 1994.....	9
5. Distribution of dwellings according to household size, 1991.....	10
6. Housing quality indicators in selected countries in transition.....	11

	<i>Page</i>
7. Housing quality in different housing types, 1991	11
8. House prices, 1997	13
9. New dwellings per 1,000 inhabitants in selected countries in transition	13
10. Dwellings completed by type of ownership, 1980-1996	14
11. Housing investment	17
12. Household expenditure on housing and related costs, 1996	17
13. Direct expenditures on housing subsidies from the annual State budget	18
14. State expenditure on housing	18
15. Projected income for the State Housing Development Fund, 1998	19
16. Transactions by the State Housing Development Fund, 1998	19
17. Housing costs in the owner-occupied market, 1997	22
18. Access to homeownership: financial arrangements	22
19. Expenditure on public housing, 1996	23
20. Income from public housing, 1996	23
21. Rents in different categories of public housing	24

FIGURES

I. Changes in GDP growth, inflation and unemployment, 1991-1997	1
II. Map of Slovakia	2
III. Population growth by the year 2005	4
IV. Age structure of the population, 1994	5
V. Internal migration, 1992-1996	5
VI. Consumer and price indexes, 1989-1997	6
VII. Age of the housing stock, 1991	10
VIII. Changes in the tenure structure	12
IX. Land price dynamics, 1993-1997	13
X. Construction cost index, 1990-1996	14
XI. Legal framework for the housing sector—selected acts	26
XII. Slovakia: the housing sector—a simplified overview of public sector institutional structures	33
XIII. Slovakia: main private sector institutional structures in the housing sector	35

PREFACE

This study on the Slovak housing sector is the third carried out by the ECE Committee on Human Settlements to analyse housing sector reform in countries in transition. The first project of this kind focused on Bulgaria and the results were published in 1996 (ECE/HBP/101). The second study, on Poland, was published in 1998 (ECE/HBP/107).

These country-specific strategic analyses of the housing sector are intended to assist the Governments of countries in transition in improving the performance of the sector. They also aim to provide practical information to those with a special interest in the country, such as international lender and donor organizations, technical assistance agencies, or private sector investors, both within and outside the country. The objective is to identify positive trends and problem areas, so as to be able to assess the implementation of national policies and strategies, and the social and economic consequences of housing reform for the population and other major actors in the sector. The studies are the work of international teams of experts. They cooperate with governmental bodies, non-governmental organizations, local authorities and the private sector to mobilize available information sources in the country. The international team of experts also draws up recommendations for action to guide the housing sector reform towards sustainable patterns of housing development.

For the study on Slovakia, the international team of experts consisted of Ms. Sasha Tsenkova (Bulgaria), project coordinator, Ms. Helena Kinnunen (Finland), Mr. Markku Tahvanainen (Finland), Mr. Alle Elbers (Netherlands), Mr. Gert Gundersen (Norway), and Mr. Andrew Wiles (United Kingdom). The Governments of Finland, the Netherlands, Norway and the United Kingdom helped to finance the study.

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.*

(Continued on next page)

- 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.*

(Continued on next page)

- 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;*

(Continued on next page)

- *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.

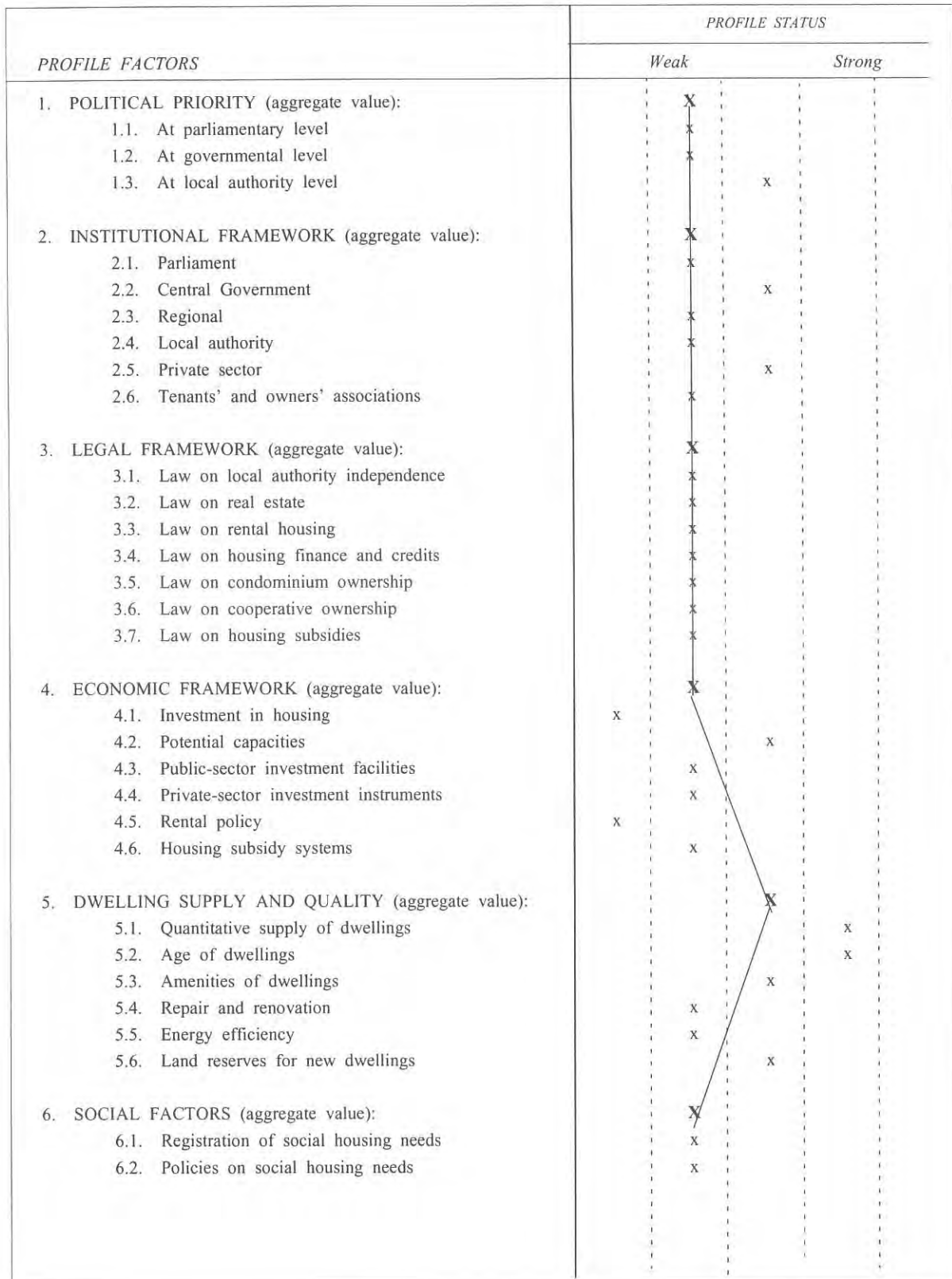
7. The Slovak housing profile

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

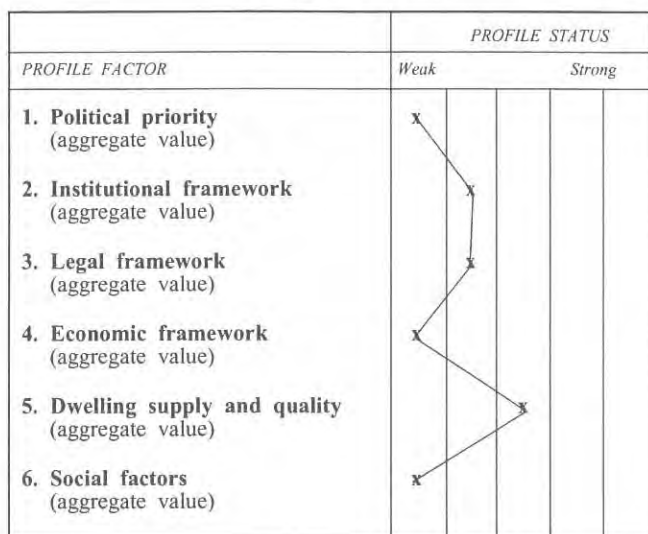
of the existing housing stock. Housing solutions need to be perceived as an integral part of social and economic policy measures dealing with social exclusion, unemployment, and the creation of sustainable communities. Consequently, it is important to focus on housing policies that will make housing 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.

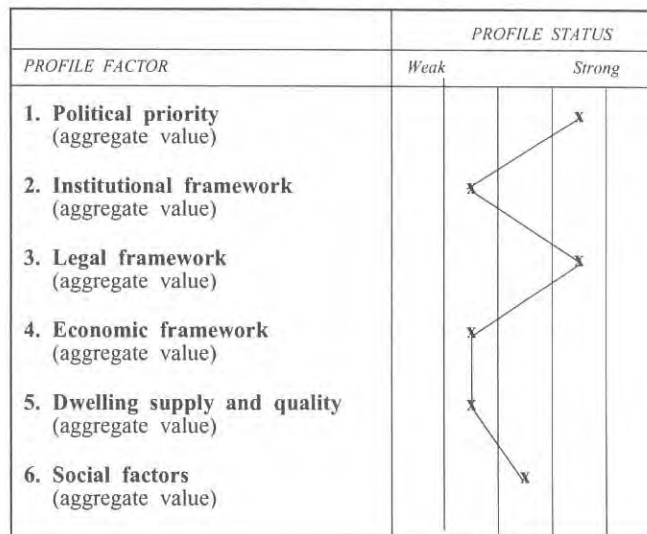
Slovakia: the country profile graph, 1998



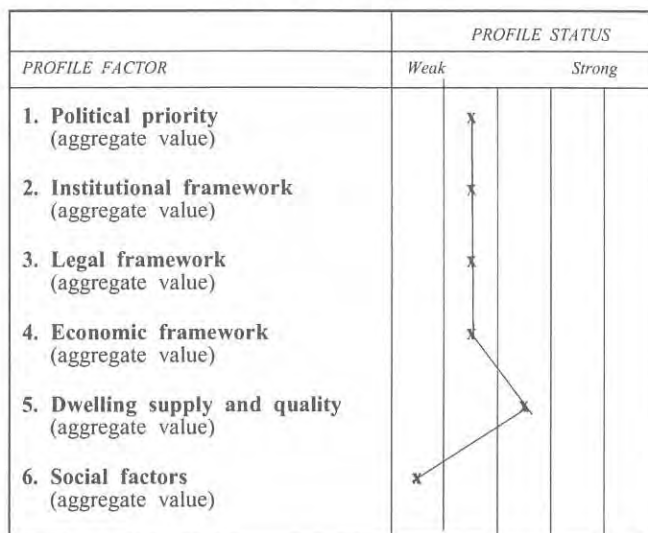
Bulgaria: A country profile on housing
The profile graph (1995)



Poland: A country profile on housing
The profile graph (1997)



Slovakia: A country profile on housing
The profile graph (1998)



**THE ECE PROGRAMME OF
 COUNTRY PROFILES ON HOUSING**

Graphic comparison of the housing sectors in Bulgaria (1995), Poland (1997) and Slovakia (1998)
 (Pilot projects of the ECE programme of country profiles of the housing sector)

I. FRAMEWORK FOR THE HOUSING SECTOR

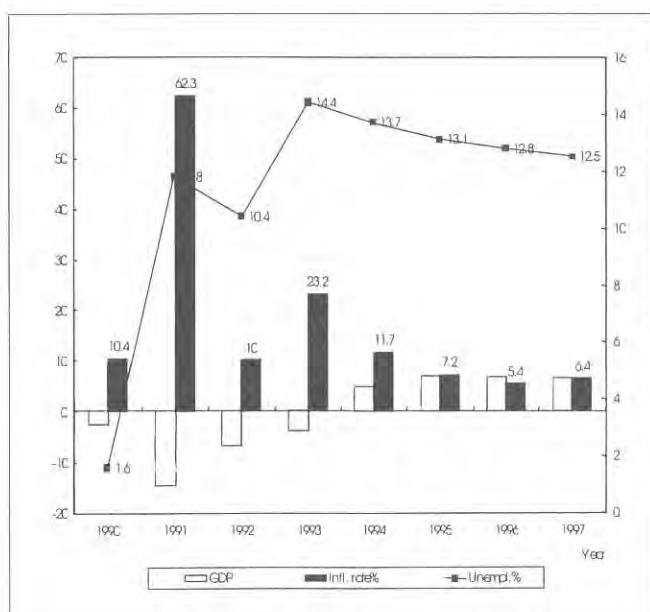
A. Politics and progress in economic restructuring

The Constitution, adopted in September 1992 following the Declaration of Independence and National Sovereignty, established Slovakia as a parliamentary democracy. Since 1993, Slovakia has had to face the difficult tasks of building a market economy and establishing the institutions of an independent State. The process of separation from the Czech Republic compounded the economic difficulties. Political instability and the lack of a broad social consensus on economic reform presented additional obstacles to the transformation process. Elections in September 1994 led to the formation of a coalition government.

The reform process has brought about price and trade liberalization, rapid privatization, the establishment of economic institutions, and the introduction of bankruptcy and competition. However, due to the structure of its industry, Slovakia was hit hard by the loss of eastern markets, which explains the deep recession from 1989 to 1993, when GDP fell by a quarter. The Slovak economy enjoyed an impressive turnaround in 1994 with **real GDP growth** of 5 per cent, followed by a 6.9 per cent increase in 1995 (figure I).

FIGURE I

Changes in GDP growth, inflation and unemployment, 1991-1997



Sources: Statistical Office, *Statistical Yearbook* (Bratislava, 1997); United Nations Economic Commission for Europe, *Economic Survey of Europe* (Geneva, 1998).

As a result of tight monetary and fiscal policies, **inflation** has remained under control and is one of the lowest in the transition economies. Following the peak of 11.7 per cent in 1994, it declined to an average of 5.4 per cent in 1996. However, because of buoyant domestic demand and some adjustment of administered prices, inflation accelerated again in the first months of 1997. **Unemployment** rose very quickly in Slovakia after the start of the economic reform. It peaked at 14.4 per cent in 1993, but declined to 12.5 per cent at the end of 1997. The proportion of long-term unemployed is high. The evolution of these major macroeconomic indicators is presented in figure I.

A programme of rapid **privatization** began in 1991. It was based on vouchers and was followed by direct sales/management buy-outs, bringing the private sector share to 70 per cent of GDP. Since 1995, however, many large companies have been privatized in a less transparent fashion, yielding little revenue to the public authorities. The Government maintains a controlling share in a number of "essential and strategic companies", such as energy, utility, telecommunication and railway companies. The construction and housing industries are almost completely privatized. Since 1989 the increase in the number of small and medium-sized enterprises (SMEs) has been impressive. SMEs now account for 35 per cent of gross output in the industrial sector. In construction, road transport, and distribution, their contribution is approximately 80 per cent.¹

TABLE I
Key economic indicators

	1994	1995	1996	1997
Real GDP (% growth).....	4.9	6.9	6.6	6.5
GNP per capita (US\$ at purchasing power parity [PPP]).....	6 660	7 090	n/a	n/a
Average gross monthly wages (US\$)...	196.4	242.0	266.0	274.4
Unemployment rate (end of period).....	13.7	13.1	12.8	12.5
Inflation rate.....	11.7	7.2	5.4	6.4
Trade balance (US\$ billion).....	0.76	0.3	-2.2	-1.4
Industrial output (growth rates).....	4.9	8.3	2.4	2.7
Construction (% of GDP).....	4.6	4.6	4.7	5.3
Housing investment (% of GDP).....	0.2	1.0	1.4	1.6
Budget balance (% of GDP).....	-5.2	-1.6	-4.4	-5.7
Foreign direct investment (% of GDP)	1.3	1.0	0.8	4.0

Sources: Statistical Office, *Statistical Yearbook* (Bratislava, 1997); United Nations Economic Commission for Europe, *Economic Survey of Europe* (Geneva, 1998).

¹ Institute of Slovak and World Economics, *Economic Development of Slovakia in 1997* (Bratislava, 1998).

As indicated in table 1, Slovakia has a negative trade balance. Industrial production has recovered from the initial shock of the early 1990s, but the annual growth rate has declined from 8.3 per cent in 1995 to 2.7 per cent in 1997. Industrial output in 1997 is still only 80.8 per cent of its 1989 level. Investment in construction has remained stable in the mid-1990s, however **housing investment is negligible and amounted to 1.6 per cent of GDP in 1997**. During the first year of independence, the general **government deficit** rose to 7.6 per cent of GDP. Despite the difficulties of setting up a new tax administration, public finances improved considerably in 1995 thanks to higher-than-expected tax receipts, generated by higher growth. In 1996, the government deficit was 4.4 per cent of GDP. **Foreign direct investment** remains very low at only 0.8 per cent of GDP in 1996, due to a lack of confidence in the commitment to market reform, the exclusion of foreigners from the privatization process and political uncertainty.

The financial sector and trade relations

The National Bank of Slovakia is independent from the Government. It is responsible for monetary and exchange rate policy and for banking regulation and supervision. Interest rates have been fully liberalized and monetary policy is now fully applied through indirect instruments. The number of banks operating in Slovakia has increased from only 4 at the end of 1991 to 29 (10 without foreign capital participation, 14 with foreign capital participation, and 5 branches of foreign banks). However, the banking system remains heavily concentrated in the three largest banks, which are still largely State-owned. The market for short-term funds is not yet fully developed, although it has the structure and features of money markets in mature market economies. Capital markets remain fragmented and illiquid, and the legislative framework needs to be developed further. The low liquidity of the domestic market is perceived as a major obstacle to the development of mortgage loans.

Slovakia has a liberal and transparent trade regime, characterized by moderate tariffs and the infrequent use of non-tariff barriers. Slovakia has reached trade agreements with the European Union (EU), the European Free Trade Association (EFTA) and the Central European Free Trade Agreement (CEFTA), and is a founding member of the World Trade Organization (WTO). The Czech Republic is Slovakia's single most important trading partner, absorbing 31 per cent of Slovak exports and providing 24.5 per cent of Slovak imports in 1996. The EU is the biggest trading partner, accounting for around 36 per cent of Slovak imports and 41 per cent of exports. Germany takes up about half the EU trade with Slovakia. Bulgaria, Hungary, Poland and Romania are important export markets.

Agricultural reform has been slow. Before 1989, over 80 per cent of cultivated land was owned by collective or State farms. Since then, legislation has been introduced to return the land to the original owners, to transform the collective farms into privately owned cooperatives and to privatize State-owned farms. In practice, only few State farms have been privatized, due to uncertainty over land restitution claims, the lower quality of their land, obsolete machinery and high debts.

B. Trends in urban and rural development: new challenges

The urban settlement structure

Slovakia covers 48,845 square kilometres. Administratively, the country is divided into eight regions (*kraye*) and 79 districts. Slovakia has 2,680 municipalities, which under the Act on Communes No. 369/90 became sovereign administrators of their territories and property. Another step in the reform of the local public administration is stipulated in the "Principles of Public Administration and the Proposal for Territorial and Administrative Division of the Slovak Republic".

FIGURE II
Map of Slovakia



Slovakia has 136 towns, which are home to 54.2 per cent of the population. Bratislava—the capital city—and Košice have more than 200,000 residents. Eight towns have 50,000 to 100,000 inhabitants, while 25 towns have 20,000 to 50,000 inhabitants. The country has an average population density of 108 persons per km², one of the lowest in central and eastern Europe. Slovakia is less urbanized than other countries in transition and has a unique settlement structure dominated by small communities with fewer than 5,000 inhabitants. The urban settlement structure in Slovakia is closely tied to the economic potential of the territory. Urbanization during State socialism was driven by intensive industrialization. Rural migration to industrial centres generated excessive demand for new housing, which was met by the mass production of large-scale, high-rise housing estates.

Market forces driving the economic restructuring in the 1990s affect the dynamics of growth in the urban settlement structure. In the past four years cities with more than 100,000 inhabitants, but also cities with 10,000 to 50,000 inhabitants, have grown the most (table 2). The highest growth rates were recorded in Bratislava, followed by Košice, Trnava, Nitra, Banská Bystrica, Prešov and Poprad. Between 1990 and 1995 prefabricated housing construction has been halted, retail and service networks have proliferated, industrial production has been restructured, historic urban centres have been upgraded and peripheral housing estates made more attractive.

TABLE 2

Urban settlement structure and population growth, 1970-1994

	Number of inhabitants (thousands)		
	1970*	1991*	1994
Fewer than 10 000	584.5	386.1	390.4
10 001-50 000	835.6	1 293.9	1 324.9
50 001-100 000	-	640.0	648.4
100 001 and more	450.4	677.4	690.7
Total	1 878.5	2 977.4	3 054.4

Source: Slovak Environment Agency, *National Report on Human Settlement and Housing Development in the Slovak Republic (HABITAT II)* (Ministry of Environment, Bratislava, 1996).

* According to the territorial structure in 1970 and 1991.

The rural settlement structure

More than 2,000 rural settlements have maintained their economic vitality in the past 50 years. The highest rural settlement density is in the west of Slovakia. Though smaller communities in less productive locations lost population due to migration, most of the rural communities maintained their population in the 1970s and 1980s and even experienced growth, reflected in the construction of new detached houses and renovation of existing ones. The rural landscape today is changing due to the privatization of farm cooperatives and State farms, the change in land ownership patterns and the steep growth in prices. There are three categories of rural communities:

- (a) Communities in the hinterland of larger cities; they have the most potential for development;
- (b) Communities in fertile areas oriented towards grain production;
- (c) Communities where local prosperity depends on the availability of technical infrastructure and resources for agricultural development.

The development challenge

The economic reform has deepened regional inequalities and led to pronounced regional differences. Economic and social development in different regions is closely linked to their demographic structure, labour resources, settlement structure, infrastructure, resources and productivity. Production is mainly concentrated in the west (Bratislava and neighbouring districts) and around Košice. Unemployment is unevenly spread, varying from 4 per cent in Bratislava to more than 20 per cent in some rural districts. These regional differences in unemployment are also related to the existing economic potential, and to the relatively underdeveloped transport and communication infrastructure in some rural regions, low labour mobility, and scarce and expensive housing in regions with fast economic growth. The situation is particularly critical in Bardejov, Eadca, Dolný Kubín, Lučenec, Rimavská Sobota, where industrial production is losing its competitiveness because its product quality is too low and its inputs too expensive.

Urban and rural housing differentiation is set to increase. An evaluation of the housing standards in cities with more than 10,000 inhabitants and in other, mainly

rural-type, settlements, does not explicitly manifest a higher housing standard in larger urban-type settlements. Housing is better serviced with central heating, water supply and sewerage systems in the urban areas. Rural areas, on the other hand, have higher housing consumption and a higher percentage of dwelling units in detached houses, as well as a higher percentage of census households coexisting in a dwelling unit. In 72 selected towns merely 19.5 per cent of dwelling units were in detached houses; in the remaining settlements the share was as high as 84.4 per cent (Statistical Office, 1991 census data). In 63 towns the average floor space of a dwelling unit was below the national average. In larger towns the average number of persons per unit was 3.07. In rural settlements it reached 3.74.

The technical infrastructure in Slovakia requires a considerable amount of investment. The split from the Czech Republic has led to a modification in the urban development system and transport network. Urbanization has gained a new dimension reflecting close connections with Europe. The western part of Slovakia, with linkages to Budapest, Bratislava, Vienna, Brno, Ostrava and Katowice, has the most promising development prospects within Europe. The current level of the Slovak transport infrastructure is below the European standard. Its road network coverage, despite the good quality of "I. class" roads and a 195 km long motorway network, generally requires massive investment for upgrading and maintenance. In 1995 the Government adopted a new concept of motorway network development. Preparatory works are taking place with the objective of finalizing the construction of a motorway network with a total length of 660 km before the year 2005. Internationally, Slovakia will be linked to the motorway network of Austria, the Czech Republic, Hungary, Poland and Ukraine. The transregional railway system largely coincides with the road network. Thirty-six per cent of the railway lines are electrified, however only part of the railway lines in west Slovakia allows for speeds above 120 km/hour. Slovakia has six airports. Bratislava and Vienna airports cooperate to facilitate international air traffic. Transport by waterway is dependent on a European river of prime importance—the Danube—which links Slovakia, Austria and Hungary.

Slovakia has 47 large and 284 small water reservoirs (dams, lakes, etc.). The country is rich in groundwater resources and has 12 water protection areas. Although the share of the population connected to the water-supply system has increased to 78.4 per cent, water-supply networks in some rural communities are inadequate or non-existent. Regional differences exist with respect to sewage networks. While in Bratislava 96.0 per cent of the population is connected, in eastern Slovakia the share is as low as 42.3 per cent, and in central Slovakia it is 50.8 per cent.²

Environmental issues are mostly related to pollution and problems due to the intensive industrialization of the past fifty years. The emphasis on heavy industry with often obsolete technologies led to excessive volumes of waste, increasing demand for material inputs, and the deterioration of the environment in general. Environmental pollution and degradation account for lower average life expectancy, a significant rise in allergies and occupational disease. Health problems are closely associated

² Slovak Environment Agency, *National Report on Human Settlement and Housing Development in the Slovak Republic (HABITAT II)*, 1996.

with pollution in most large cities—Bratislava, Košice, the Upper Nitra region, Zilina and Central Spiš. Air, water and soil pollution resulted from mining, energy generation, metallurgical and machine engineering operations. These trends were reversed in 1990. Economic transition was accompanied by a dramatic decline in industrial output, contracting energy consumption, and closing-down of obsolete industrial plants. As a result, environmental pollution fell substantially. Future development depends on effective environmental legislation in line with European standards and the ability to introduce environmentally friendly technologies in the production processes.

Efforts to create an active environmental policy stem from a number of legal norms intended to protect individual components of the environment in the 1990s. Resolution No. 449 of May 1992 adopted the Concept of Environment Monitoring in the Territory of the Slovak Republic and the Concept of an Integrated Information System on the Environment in the Slovak Republic. The Ministry of the Environment, together with local environmental agencies, act to protect the natural habitat, the quality of water and air, and non-renewable resources. The new Principles and Priorities of the State Environmental Policy stipulate that the essential goal is to re-

establish a dynamic balance between society and the environment. A combination of two mutually complementary strategies is used to implement specifically formulated objectives:

- Remedial measures aimed at eliminating “old” sources of pollution;
- Preventive measures directed towards closed production and consumption cycles with minimal negative impact on the environment.

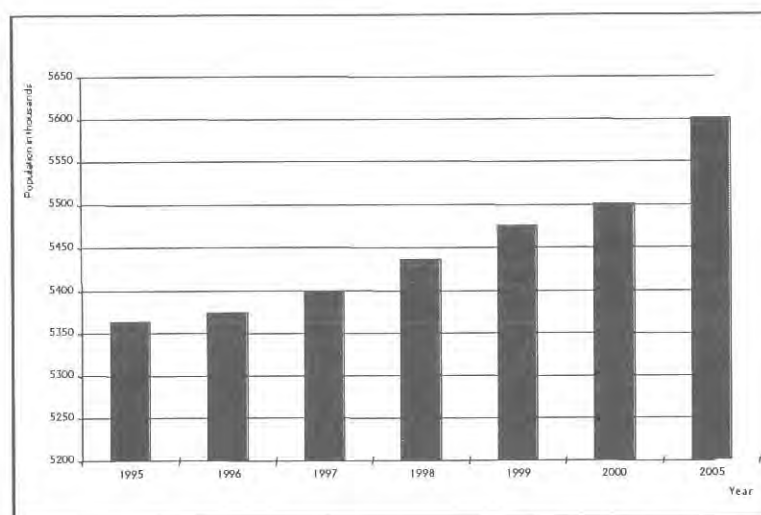
The implementation emphasizes the importance of comprehensive environmental legislation, consumption patterns, economic mechanisms and cooperation between government, businesses and consumers.

C. Social development

Demographics

Slovakia had an estimated population of 5,373 million in 1996. Population growth was reduced from 1.8 per cent a year in the mid-1950s to less than 0.5 per cent now, which implies a gradual ageing of the population. Projections for future population growth are presented in figure III.

FIGURE III
Population growth by the year 2005



Sources: Statistical Office, *Statistical Yearbook* (Bratislava, 1997); UNDP *Slovakia Human Development Report*, 1996.

TABLE 3
Demographic indicators

	1992	1993	1994	1995	1996
Mid-year population	5 306 539	5 324 632	5 347 413	5 363 676	5 373 810
Total increase	18 278	22 300	19 752	11 583	11 142
Number of households (national)	1 778 000	n/a	1 787 000*	n/a	n/a
Number of households (Bratislava)	175 000	n/a	176 000*	n/a	n/a
Marriages per 1,000 inhab.	6.4	5.8	5.3	5.1	5.1
Divorces per 1,000 inhab.	1.52	1.53	1.62	1.67	1.75
Live births per 1,000 inhab.	14.1	13.8	12.4	11.4	11.2
Deaths per 1,000 inhab.	10.1	9.9	9.6	9.8	9.5
Natural increase per 1,000 inhab.	4.0	3.9	2.8	1.6	1.7

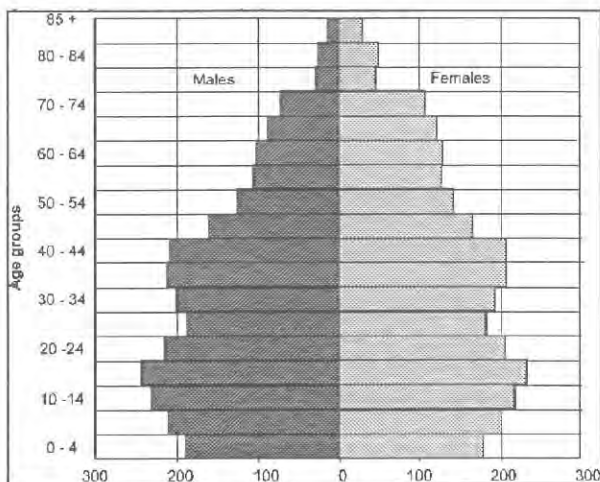
Sources: Statistical Office, *Statistical Yearbook* (Bratislava, 1997); Census of population and housing (Bratislava, 1991)

* Data derived from 1994 Microcensus of Population and Housing.

As table 3 indicates, the total increase in population was 11,142 in 1996, substantially lower than the 18,278 in 1992. Household formation indicates a modest growth in the number of households, particularly in the capital city, where households increased by 1,000 within 3 years.³ Meanwhile the birth rate has declined to 11.2 children per 1,000 inhabitants in 1996. Social upheavals have had an unfavourable effect on marriages, which have fallen to 5.1 per 1,000 inhabitants. The lower death rate and longer life expectancy can be attributed to improved health care. Overall, the natural increase in population has declined from 4 per 1,000 inhabitants to 1.7. These demographic developments need to be taken into account in estimating future demand for housing.

Slovakia's population has an unbalanced age structure. Life expectancy at birth in 1996 was 68.4 years for men and 76.3 years for women. Women represent 51.3 per cent of the population. Currently, 42.3 per cent of employed persons are women and 97.8 per cent work full-time. The gender differences in the age structure of the population are presented in figure IV.

FIGURE IV
Age structure of the population, 1994



Sources: Statistical Office, *Statistical Yearbook* (Bratislava, 1997); UNDP, *Slovakia Human Development Report*, 1996.

Ethnicity, mobility and social change

The population is ethnically diverse. Slovaks made up 85.67 per cent of the population in 1996 and have maintained their share in the past five years. According to the 1991 Census, 567,000 persons claimed to be Hungarian (10.8 per cent of the population) and this figure increased to 569,000 in 1994. The Gypsies were estimated to be 254,000 (4.8 per cent), although only 75,800 of them declared their ethnic origin officially. Due to their large families, low education, lack of skills and their lifestyle, the Gypsies are perceived as "socially problematic" and are often associated with low income and social status. Minority groups are spatially concentrated. There are four areas with a mixed Slovak-Hungarian population: the Danube plain area, the basins of south Slovakia, south-eastern Slovakia and Nitra Island. Gypsies are concen-

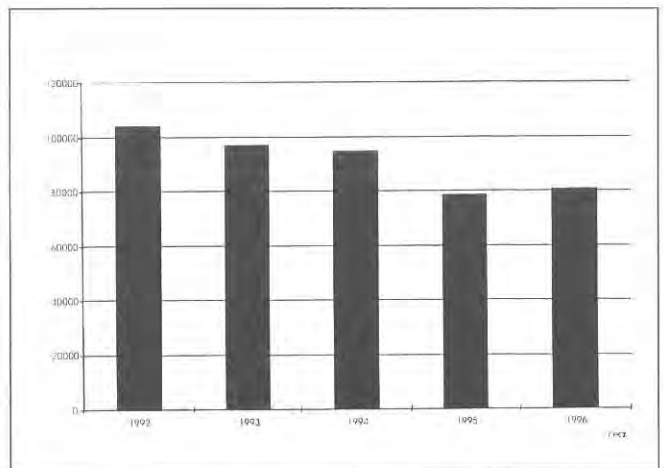
trated in the east and north-east and their share of the population in Gemer and Spiš has increased substantially. The Ruthenian and the Ukrainian regions represent a rather large though sparsely populated area in the north-east of Slovakia (roughly from the Poprad River to the border with Ukraine). Around 90 per cent of all Ruthenians and Ukrainians in Slovakia live there. There are no urban centres to speak of. The Czechs, the Moravians, the Bulgarians, the Poles and the Russians live mostly in Bratislava, Trenčín, Zilina, Košice and Martin.⁴

The level of education of the population is high—the literacy rate stands at 99 per cent. Most secondary education is vocational or technical, which reflects the importance of heavy industries and engineering in the economy. The share of the population with secondary and higher education has increased during the transition.

According to the 1991 Census, Roman Catholics account for 60.4 per cent of the population, followed by Protestants (8 per cent) and Uniates (3.4 per cent). Close to 9.8 per cent of the population is atheist. Currently different religious establishments have a considerable impact on social restructuring.

The Slovak population is less mobile than its west European counterparts. Until 1993 Slovakia suffered annual population losses of 3,500 due to migration to the Czech Republic. Since then, the migration gain of the Czech Republic has declined. Migration to other countries is negligible. It should be noted that economic restructuring has changed traditional patterns of regional in-country migration flows. For example during 1991-1993, 17 districts reported population increases due to migration.⁵ Settlements close to Bratislava gained population. Migrants residing within a reasonable commuting distance from the capital city take advantage of the vacant and more affordable housing stock. Generally, interurban labour mobility is low. Recent data on internal migration indicate that the number of total migrants in 1995-1996 has decreased by 20 per cent compared to 1991 levels (fig. V).

FIGURE V
Internal migration, 1992-1996



Source: Statistical Office, *Statistical Yearbook* (Bratislava, 1997).

⁴ UNDP, *Slovakia Human Development Report 1996*.

⁵ Districts with the largest population increase due to migration: Trenčín, 3.4 per 1,000; Malacky, 3.3 per 1,000; Bratislava, 3.2 per 1,000; and Skalica, 2.8 per 1,000.

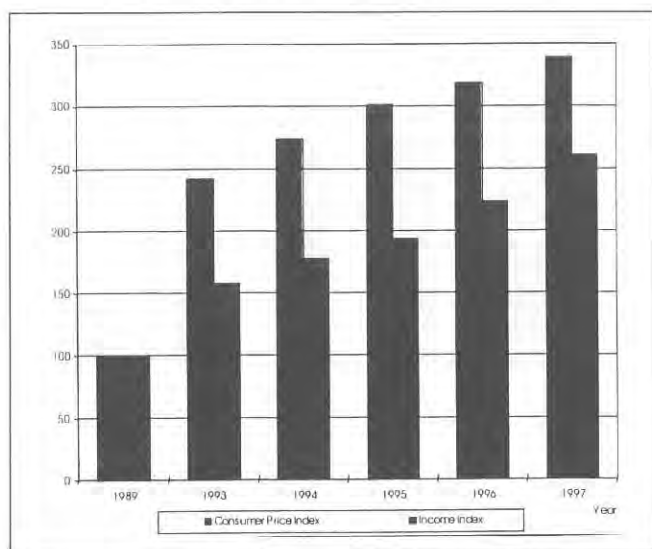
³ According to the 1980 Census of Population and Housing, there were 1,585,000 households in 1980, 138,000 in Bratislava.

Social change

Although the transition from a centrally planned economy to a market orientated system is reflected in the changes in the key demographic and social characteristics of the population discussed above, the most dramatic impact of economic restructuring is evident in the income distribution patterns. This previously egalitarian society has been rapidly transformed into a society where **social and income polarization is increasing dramatically**. Privatization, entrepreneurship and income differentiation have affected social status considerably. These developments have a critical impact on housing demand and the operation of housing markets. The preferences of the newly established high-income groups determine the supply of housing at the high end of the market—a trend that is visible in Bratislava, Košice and other buoyant markets. By contrast, at the lower end of the income scale, households are struggling to keep up with the increases in housing construction and utility costs.

Generally, the disposable income of households has decreased in the 1990s. After the “price boom” in 1992 associated with price liberalization, consumer prices have stabilized. However, increasing prices of goods and services, housing costs, rents, transport, etc. have had a considerable impact on the **cost of living**. For example between 1990 and 1994, rents increased 100 per cent and utilities 416 per cent. By comparison, the cost of living between 1989 and 1994 increased 173.8 per cent. According to the Act on Subsistence Provision (Act 463/1991), the percentage of households living in poverty in 1992 and 1994, respectively, was 2.7 per cent and 2.2 per cent. Despite efforts to adjust wages, social security payments, pensions, etc. to inflation, prices—measured by the consumer price index—have increased much faster than incomes (fig. VI). These imbalances account for the existing **affordability gap** in the present housing markets. In summary, consumers are devoting a larger share of their incomes to housing.

FIGURE VI
Consumer and price indexes, 1989-1997



Source: Ministry of Labour, Family and Social Affairs, *Report on the Social Situation in the Slovak Republic in 1997* (Bratislava, May 1998).

NOTE: Consumer and price indexes are compared to 1989 = 100 per cent.

D. Housing reform

The socialist housing system

Slovakia has inherited an excessively controlled housing system. The system was based on low housing costs, centralized production and allocation of housing. Homeownership in larger cities was discouraged. Land had no value, interest rates, rents and utilities were heavily subsidized. Rents were tightly controlled, averaging only 2.7 per cent of income in 1988. Housing was a political priority and was universally affordable thanks to extensive subsidies and macroeconomic price regulation. The emphasis was on the need to produce large volumes of new housing. Prefabricated technology, offering a limited number of building types, economies of scale and large quantities of mass-produced housing dominated housing production in urban areas.

The lack of housing markets led to reduced labour mobility, and housing overconsumption at the end of the family life cycle. Strong tenant's rights, including perpetual occupancy (transferable to family members), the right to sublet or exchange flats, the obligation of the building owner to find comparable alternative accommodation for tenants in order to evict them, led to housing shortages, particularly in Bratislava and larger industrial centres. This absolute shortage is even higher if low-standard housing is included. Low-standard housing amounts to 14.8 per cent of all housing, and 28.8 per cent of owner-occupied housing. While most modern apartments are connected to public utilities, single-family homes are less well served. Though the socialist housing provision system was inefficient in many respects, through the 1980s, the housing stock grew annually at 1.6 per cent, while the population grew at 0.5 per cent a year. From 1970 to 1991, housing conditions improved—floor space per person increased by 39 per cent to 16.1 m².

National housing objectives

The national strategic views on spatial development and housing are set out in four major policy documents: “Conception of Spatial Development of Slovakia” (1994), “Strategy of the Spatial Development and Organization of the Slovak Republic” (1995), “Conception of the State Housing Policy by 2000” (1995) and “National Report on Human Settlement and Housing Development in the Slovak Republic” (Habitat II, 1996). Within these strategic documents, the **national objectives for housing** are stated as :

- Creation of a broad and effective institutional framework of collaboration and coordination of agencies, ministries and institutions with a direct or indirect impact on the housing sector;
- Gradual implementation of the long-term strategic components (legal reforms, reorganization of institutions and monitoring systems) by the year 2000;
- Rational mobilization and distribution of financial resources;
- Support for housing construction, technical infrastructure provision and building production.

To achieve these strategic goals, the Government has formulated **specific tasks within different fields of activity**:

(a) *Legislation and decision-making:*

- Create a parliamentary committee for housing in the National Council;
- Draw up new legal standards and update the legal framework;
- Establish a national housing agency;
- Develop a State housing policy;
- Establish a national housing development fund;
- Implement the concept of a State housing policy.

(b) *Management and operational systems:*

- Link the conception of the State housing policy by 2000 with national macroeconomic strategies;
- Evaluate the positive social and economic consequences of housing development;
- Support capital accumulation through policy measures;
- Stimulate the supply of land for housing construction, particularly for low-income households;
- Increase the administrative capacity of the land title registration system.

(c) *Financial systems and housing construction:*

- Create a tax system allowing municipalities to mobilize funds for infrastructure development;
- Make housing more affordable through:
 - Support for new housebuilding through the housing development fund;
 - Rent reform and a system of housing allowances;
- Mobilize financial resources for the management and maintenance of the housing stock;
- Revitalize central urban areas for housing and public amenity purposes;
- Introduce cost-effective methods for housing construction and renovation.

Concept of the State housing policy

In November 1995, the Government adopted a new State housing policy concept. One of its key objectives is to ensure a quantitative housing standard of 307 housing units per 1,000 inhabitants by the year 2000. This implied the construction of more than 90,000 housing units, at a rate of 20,000 a year. The prime housing priority is to improve housing standards. Furthermore, the concept seeks to create adequate organizational, institutional, legal and financial frameworks for the provision of new housing and for the renovation of existing housing. The concept legitimizes the “enabling approach” to housing, where individuals assume the primary responsibility for the provision of housing, while the State and municipalities create favourable conditions for private investment and initiative. Recognizing the social responsibility of the welfare

state, housing assistance is targeted to low-income households and other disadvantaged groups (young families, pensioners, persons with disabilities). Subsidies are becoming more targeted and transparent.

The privatization of municipal and cooperative housing is encouraged. It is recognized that the housing policy needs to address the improvement and modernization of the existing housing stock. The deterioration of housing needs to be prevented through the development of efficient maintenance and management practices, and the implementation of special programmes (thermal insulation, energy conservation). The upgrading of prefabricated housing, in the peripheral housing estates in particular, is recognized as a priority. Emphasis is placed on an integrated approach to housing development taking into consideration the development of technical infrastructure, preservation of the historical heritage, environmental attributes and regional differentiation.

The new concept of State housing policy emphasizes the need to regulate the developments in the sector through economic instruments—subsidies, loans, tax and financial incentives. The creation of an autonomous State housing development fund is considered to be the most important step in that direction. An integral component is the liberalization of rents and a system of housing allowances that mitigate the adverse impact of rent increases, particularly on low-income households.

Progress in housing reforms

Housing reforms during the transition period have been marked by their emphasis on the privatization of municipal and cooperative housing, the restructuring and privatization of the housing industry, the reduction in supply and demand subsidies and the deregulation of housing markets. Prices of land, materials and labour were liberalized. New housing markets have profoundly reshaped existing urban communities. Previous uniformity of land and house prices has been replaced by a differentiated system, reflecting location, accessibility of the area and amenities.

Although private development has been permitted and long-standing discrimination against private-sector housing provision eliminated since 1992, there has been little success in streamlining land-use planning and development approval processes. In general, there is an overall shortage of funds and investment in new housebuilding has declined substantially. **Housing subsidies**, which were reduced in 1991, had virtually dried up by 1994, accounting for only 0.8 per cent of the State budget. The old low-interest loan programmes for equity cooperatives and family houses vanished in 1993. The reduction in subsidies has allowed housing costs to rise to near market levels.

In early 1991, the ownership of a large share of the State-owned housing stock was transferred directly to elected local governments. **Privatization** has enjoyed popular support in Slovakia, with over 64 per cent of the tenants indicating their interest in purchasing a municipal or State-owned flat. By the end of 1996, 61,202 public rental units had been privatized. Slovakia's pace of pri-

vatization has been quite slow compared to that of other countries in transition. The limited equity cooperatives were obvious targets for privatization, as members had already contributed towards their housing costs. By December 1996 only about 38,000 of all cooperative flats

had been privatized. The **restitution** of State-owned housing to former owners, or their heirs, was not a substantial issue in Slovakia, accounting for only 0.25 per cent of the national housing stock, and 1.5 per cent of the stock in Bratislava.

II. EXISTING HOUSING STOCK AND NEW HOUSING CONSTRUCTION

A. The existing housing stock

Approximately 13 per cent of Slovaks live in the two big cities—Bratislava (444,000 inhabitants) and Košice (236,000 inhabitants). More than half the population lives in small settlements with fewer than 10,000 inhabitants. Furthermore, 96 per cent of the settlements have fewer than 5,000 inhabitants. So a large part of the housing stock is located in rural areas. Due to job losses in certain regions and cuts in public expenditures for the provision of public transport and social infrastructure in some rural areas, economically depressed areas experience a higher housing vacancy. The migration to larger cities and economically attractive regions reinforces existing regional differences in housing distribution and demand for dwellings.

According to the Population and Housing Census held in March 1991, Slovakia's total housing stock amounted to 1,769,000 dwellings, of which 1,618,000 were permanently inhabited. Recent estimates indicate that by the end of 1997 the total housing stock had increased to some 1.8 million dwellings.⁶ Assuming that the demolition included mainly vacant dwellings, the number of occupied dwellings at the end of 1997 amounted to approximately 1,649,000 units. Thus, the housing stock grew on average 0.6 per cent a year during the 1991-1997 period,⁷ which is considerably less than the average annual increase of 1.6 per cent between 1983 and 1991.

The latest available information on vacancy rates in housing is from the 1991 Population and Housing Census. It indicates that 151,000 dwellings were vacant, representing an extremely high proportion of 8.9 per cent of the total housing stock. However, it should be noted that dwellings under construction were registered as vacant.⁸ If the total number of dwellings under construction at the beginning of 1991—68,827 units—is subtracted, the vacancy rate is down to about 4.8 per cent. Vacant dwellings are mostly located in remote areas or in areas with high unemployment and no demand for housing. According to the Ministry for Construction and Public Works, about 82 per cent of all vacant dwellings are family houses in private ownership and only about 20 per cent could be used again for residential purposes. Another 30 per cent, mostly single family houses in the south, are unfit for habitation for technical reasons. Many of these houses were built about 40-50 years ago from clay bricks.

⁶ The estimate is based on assumptions made in the "Conception of the State Housing Policy by 2000", the production of 77,500 new dwellings in this period and the annual removal of 7,000 dwellings from the stock.

⁷ The figure does not account for demolition of dwellings.

⁸ According to the census methodology, dwellings could be registered as inhabited only with a certificate of occupancy.

Following rural-urban migration they became vacant or were converted into secondary residences.

Housing distribution

A quantitative comparison according to the number of dwellings per 1,000 inhabitants ranks Slovakia somewhere in the middle among countries in transition (table 4). Bulgaria, the Czech Republic and Hungary have close to 400 dwellings per 1,000 inhabitants. Slovakia, with 334 dwellings per 1,000 inhabitants, follows Romania and Slovenia very closely. However, this indicator is much lower than the levels of 350 to 475 dwellings per 1,000 in western Europe. **There are housing shortages in Slovakia.** The number of persons per room is as high as 1.14. With respect to average floor space per person, Slovakia with 21.9 m², compares favourably to housing consumption in the other countries in transition, where this indicator is below 20 m² (the Czech Republic and Hungary being notable exceptions).⁹ It should be noted, however, that there are significant regional differences within each country.

TABLE 4
Housing distribution indicators in selected countries in transition, 1994

Countries	Dwellings* per 1,000	Persons/room	m ² /person
Bulgaria	405	1.00	16.7
Czech Republic	397	1.04	25.5
Hungary	385	0.92	32.1
Romania	341	1.19	17.4
Slovenia	338	1.33	19.0
Slovakia	334	1.14	21.9
Poland	296	1.02	18.2
Albania	219	2.70	8.0

Source: J. Hegedus, S. Mayo and I. Tosić, *Transition of the housing sector in the east-central European countries* (Budapest, Metropolitan Research Institute, 1996).

* Total housing stock, including vacant dwellings.

Dwellings in Slovakia are relatively small. According to the 1991 Census, the average living floor space of all types of dwellings amounted to 45.4 m², ranging from 24.5 m² in dwellings with one room to 93.7 m² in dwellings with 5 or more rooms.¹⁰ Table 5 shows the size

⁹ In western Europe the average floor space per person ranges from 26 to 43 m².

¹⁰ For comparative purposes, in 1994 the average living floor space for all types of dwellings in Belgium and Germany was 87.6 m² and 84.2 m², respectively.

of dwellings compared to household size in 1991. **The structure of the housing stock does not correspond to the structure of households.** There is a shortage

of flats with three bedrooms or more. As a result, newly built dwellings have a much higher average floor space.

TABLE 5
Distribution of dwellings according to household size, 1991

Dwellings			Households		
Number of rooms in a dwelling	Number of dwellings (thousands)	Percentage	Number of persons in household	Number (thousands)	Percentage
1 room	182	11.2	1	339	21.8
2 rooms	439	27.1	2	437	23.8
3 rooms	628	38.8	3	337	18.4
4 rooms	231	14.3	4 or more	649	36.0
5 or more rooms	138	8.6			

Source: Statistical Office, *Census of population and housing* (Bratislava, 1991).

Housing needs

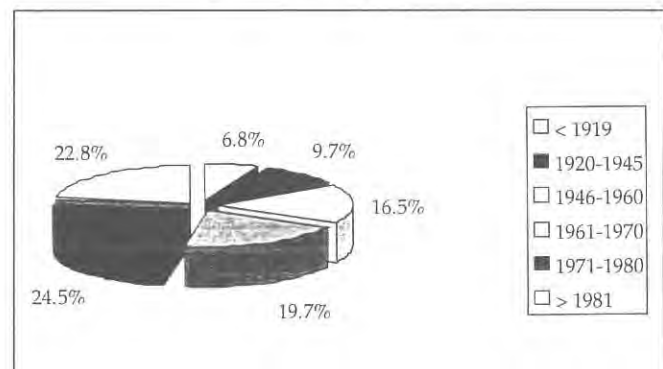
According to the "Conception of the State Housing Policy by 2000", the aim is at least to maintain the quantitative level of housing provision of 307 dwellings per 1,000 inhabitants. To meet the objective, it would be necessary to build 21,000 dwellings a year in the period 1997-2000. However, several other indicators show that, in practice, the need for new housing is much greater. The average number of persons per room amounted to 1.14, and per dwelling to 3.26 in 1991. The household-to-dwelling ratio was 1.12. These figures indicate that the number and the size of the dwellings are inadequate compared to the number of households. Given the average size of households, based on the estimated number of inhabitants (5.38 million), and the housing stock (1,691,000 dwellings) at the end of 1996, the total housing deficit amounts to 180,000 dwellings. In addition, the average household size of 3.26 persons in 1991 in Slovakia is quite high compared to west European levels. If this figure were to fall to the west European average of 2.5 persons per household, this would require an extra production of at least 280,000 new dwellings in the next decade. So, solving the housing deficit in ten years and reducing the average size of households to 2.5 would require production of at least 32,000 dwellings a year. Those estimates do not take into account the need for new housing due to natural population growth or to demolition.

Besides the quantitative housing needs, the demand for new housing due to the inefficient distribution of units should also be taken into account. In addition, regional differences in housing consumption, as well as the discrepancies between the composition of the present stock and the structure of households in different local markets, need to be considered. A comprehensive assessment requires systematic information on these issues, which is not available at the moment.

Housing quality

Slovakia's housing stock is relatively young—36 years on average. As figure VII illustrates, 50 per cent of dwellings were built more than 25 years ago. Only 7.0 per cent of the stock was built before 1919, and another 10 per cent between 1919 and 1945. Almost 83 per cent of the stock dates from the period between 1946 and 1991. Compared with other European countries, this figure is quite high—the average figure for Europe is about 70 per cent.

FIGURE VII
Age of the housing stock, 1991



Source: United Nations Economic Commission for Europe, *Annual Bulletin of Housing and Building Statistics for Europe and North America* (Geneva, 1996).

In terms of amenities, the quality of the Slovak housing stock is quite high. More than 75 per cent of the stock has a central heating system and more than half the stock is connected to the national gas grid. As data in table 6 indicate, almost 90 per cent of the housing has a bath or shower and more than 92 per cent is connected to water piping. Overall, the situation in Slovakia in terms of amenities in the existing housing stock compares quite favourably with other countries in transition.

TABLE 6

Housing quality indicators in selected countries in transition

Country	Piped water	Flush toilet	Bath or shower
	Percentage of the total dwelling stock		
Bulgaria	83.4	57.7	44.9
Hungary	84.4	75.6	79.6
Poland	90.6	78.6	78.6
Slovakia	92.7	80.0	89.0
Slovenia	97.5	90.1	87.1

Source: United Nations Economic Commission for Europe, *Annual Bulletin of Housing and Building Statistics for Europe and North America* (Geneva, 1996 and 1998).

The methodology used in the 1991 Housing and Population Census defined four categories of housing quality according to amenities:

- Category I: dwellings with central heating, central hot water supply, bathroom and toilet;

- Category II: dwellings with central heating, local hot water supply, bathroom and toilet;
- Category III: dwellings without central heating, with local hot water supply, with either a bathroom or a toilet; and
- Category IV: dwellings without central heating, hot water supply, toilet or bathroom.

According to these categories, different housing types show a striking difference in quality. As data in table 7 indicate, most dwellings in multi-family housing belong to the first category, compared to only about 60 per cent of the single-family houses. Close to 18 per cent of the single-family houses belong to the lowest housing quality category, while another 13 per cent and 9 per cent to categories II and III, respectively. Meanwhile the share of multi-family housing in these categories is negligible.

Data on the technical and physical quality of the housing stock are scarce. In general, the legacy of previous housing policies has contributed to a serious backlog in

TABLE 7

Housing quality in different housing types, 1991

Category	Multi-family housing		Single-family housing		Other housing		Total	
	Dwellings	Percentage	Dwellings	Percentage	Dwellings	Percentage	Dwellings	Percentage
i	779 670	94.0	493 223	59.1	5 995	85.2	1 278 888	76.6
ii	41 583	5.0	108 062	12.9	735	10.4	150 380	9.0
iii	2 037	0.2	77 917	9.3	85	1.2	80 039	4.8
iv	3 822	0.5	155 710	18.6	222	3.2	159 754	9.6
Total	827 112	100.0	834 912	100.0	7 037	100.0	1 669 061	100.0

Source: Statistical Office, *Census of population and housing* (Bratislava, 1991).

maintenance and repair of the housing stock and the technical infrastructure. The situation further worsened during the transition period as the Government withdrew from the financing of repair and modernization. It is estimated that SK 100,000 per apartment are needed for repair in the rented (or formerly rented) housing stock. According to a recent study by the Ministry for Construction and Public Works, 255,671 dwellings need complex renovation. These units were built before 1970 using mainly large-panel technology. In general, this type of housing is poorly insulated. Surveys show that energy consumption can be cut by 30-40 per cent, if adequate technical improvements are made. Some of the construction elements and the technical equipment in these buildings are in the final stages of their service life. Leaking roofs and damp walls are also common. Reconditioning of the panel housing stock should include: (a) renewal of external insulation; (b) replacement of windows and/or doors; (c) replacement of gas, water, energy and heating systems. The complete replacement of the entire technical infrastructure of the buildings, including lifts, is another part of the proposed renewal package. Costs for these operations are estimated at SK 11.6 billion. The Ministry for Construction and Public Works has proposed a scheme for the gradual renewal of about 28,000 dwellings per year, which would lead to

an annual investment of SK 16.2 million into the renovation of the existing housing stock.

The historic core of some historic cities and villages is severely deteriorating. Some dwellings in the historic buildings housed lower income households. The growing amount of cars in cities and the lack of public parking places make the present use of these areas difficult. A coordinated investment through public private partnerships is required to make historic areas more liveable.

B. Tenure structure and housing markets

The data on tenure patterns in Slovakia shows that in 1991 about 50 per cent of the housing stock was privately owned. This part of the stock basically consists of family homes in smaller towns, villages and rural areas, constructed on a do-it-yourself basis at a time when building materials were inexpensive. Municipal and cooperative housing, which accounted for 50 per cent of the stock, is mainly located in urban areas. The share of municipal housing in Slovakia is low compared to west European levels, where public housing takes up between 23 and 56 per cent. The cooperative sector—over 22 per cent—rep-

resented a more significant part of the housing stock in comparison with other west European countries. Private renting was non-existent.

Privatization and tenure structure

Since the start of the transition to market-based housing provision, the tenure structure of the housing stock has been transformed. All State-owned dwellings were transferred into municipal ownership in 1991. Within the general process of changes in the ownership structure, three main forms can be discerned: (a) restitution; (b) privatization; and (c) transformation of housing cooperatives.

The **restitution process** started in 1991 with the endorsement of the Act on Restitution. Under the restitution scheme, property nationalized after 1948 can be returned to its former owners or their heirs.¹¹ The restitution process had no significant effect on the housing tenure structure, as it affected only 0.25 per cent of the public housing stock.

Since the endorsement of the Act on Ownership of Residential and Non-residential Premises in 1993, tenants of the municipal housing stock have been eligible to purchase their home, provided that more than half the tenants in a multi-family building are willing to privatize their flats. Under the **privatization programme** the price is based on the purchasing price at the time of construction and is depreciated by 2 per cent per year¹² and then the price is reduced by 30 per cent. Prices are severely depressed and stand at less than 5 per cent of the market value of the dwellings. Furthermore, privatization of housing is subsidized through the contract savings system. Under this scheme, eligible savers are entitled to a State premium for the purchase of housing in the privatization programme. "The right to buy" has no time limit. A first instalment of 15 per cent of the estimated purchasing price is due upon the transfer of the dwelling, the remaining amount must be paid over ten years. Despite the favourable conditions, the sale of public housing is not as massive as expected. The slow pace of privatization can be explained by:

- The inefficient operation of local authorities and the real property registration system;¹³
- The low rents and absence of maintenance costs make it financially more attractive to rent;
- The unlimited period to exercise "the right to buy" public housing;
- The large backlog in maintenance of public housing combined with the generally poor quality of the older housing stock.

By the beginning of 1998, approximately 37 per cent of the public rental stock had been privatized. The expectations are that by the year 2000 this figure could increase to 55 per cent.

¹¹ Nationalized housing sold to individuals after 1948 was excluded from the restitution scheme. Former owners or heirs are entitled to financial compensation from the State.

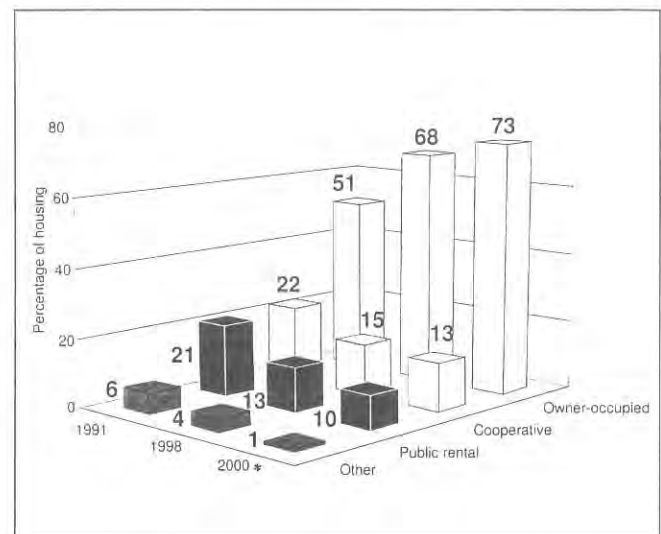
¹² In 1989 the price of an average flat amounted to SK 180,000.

¹³ In 1996, for example, 148,000 tenants applied, but contracts were prepared for only 78,000 applicants.

A third form of ownership transformation involves the **transfer of cooperative housing** into private ownership by existing cooperative members. The principles of privatization of cooperative housing are specified in the 1992 Act on Transformation of Cooperatives. One of the main provisions of this Act requires cooperatives to pay back the construction loan at the time of purchase. Prices to be paid for cooperative flats do not reflect regional differences. Furthermore, the right to privatize cooperative dwellings is unlimited. During the initial stage of the privatization process, interest among cooperative members appeared to be quite high—about 65 per cent wanted to buy their dwellings. By 1998 approximately 28 per cent of the cooperative housing stock had been privatized. It is expected that by the year 2000 some 41 per cent of the cooperative housing stock will be transferred into private ownership.

Major changes in the tenure structure took place mainly in urban areas. For example, in Bratislava private ownership of dwellings increased from 12 per cent in 1991 to about 70 per cent in 1998.

FIGURE VIII
Changes in the tenure structure



Sources: Ministry for Construction and Public Works, interview data (Bratislava, May 1998); United Nations Economic Commission For Europe, *Implementation of Human Settlements Policies on Urban Renewal and Housing Modernization: Case Study Bratislava* (forthcoming).

* Data for the year 2000 is based on expert estimates.

Exact figures on the present tenure distribution of the housing stock are not available. However, some estimates could be made taking into account progress in privatization and restitution. It is estimated that in 1998 the public rental housing stock represented only 13 per cent of the total housing stock, the cooperative sector about 15 per cent and the private sector close to 68 per cent. Given the pace of the privatization and rates of new housing construction, it might be expected that only 10 per cent of the housing stock will remain as public rental housing in the year 2000, 13 per cent will remain as cooperative, and 73 per cent will be in private hands. Changes in the tenure structure of the housing stock in 1991-2000 are presented in figure VIII.

The housing market

While a residential real-estate market in Slovakia is emerging, sales of real property are limited only to the properties restituted to former owners and privatized former State housing units. Many dwellings were sold by local governments to sitting tenants, but without registration of legal title and ownership rights at the time of sale. In addition, there is a procedure backlog in view of the fact that the land registration system is being established.

Available information on house prices in 1997 indicates that, due to their better quality (building materials, size and layout), the newly built housing units are 15-30 per cent more expensive than existing housing units. House prices in Bratislava (standard housing) are up to 25 per cent higher than house prices in regional centres with more than 30,000 inhabitants (table 8). **The regional and local price differentiation** also reflects differences in economic development and employment opportunities among cities and regions.

TABLE 8
House prices, 1997

House prices in SK per m ²	Newly built housing	Existing housing
Bratislava—housing of normal standard	19 000-26 000	15 000-20 000
Bratislava—housing of higher standard	30 000-35 000	..
Towns up to 30 km from Bratislava	14 000-18 000	12 000-15 000
Regional and district centres—more than 30,000 inhabitants	16 000-22 000	12 000-15 000

Source: Database of the First Slovak Building Savings Bank, 1998.

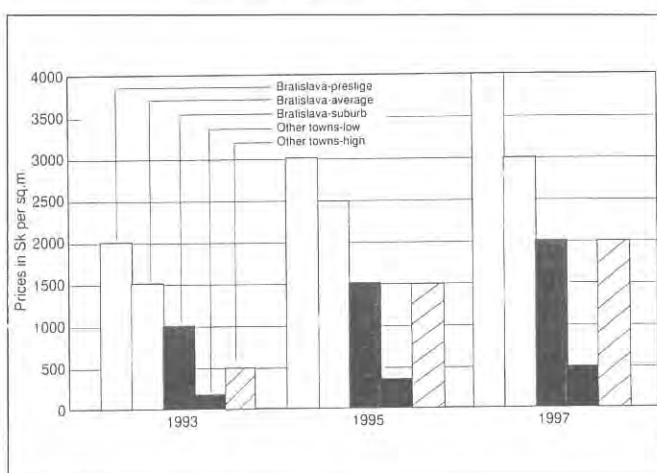
Land prices increased steadily between 1993 and 1997. Land shortages obviously push up the prices of newly built housing, particularly in Bratislava. Currently prices per square metre in the most desirable locations in the capital are twice as high as prices for similar dwellings in other towns (fig. IX). The fact that this correlation in prices has remained similar throughout the transition period, suggests that there are inefficiencies in the operation of urban land markets.

based on a true market appraisal. This formula yields base prices ranging from US\$ 1 to US\$ 24 per square metre, which are then subject to surcharges or reductions.

C. New housing construction

In 1980 close to 48,200 new dwellings were completed in Slovakia. During the transition period, when State subsidies for large-scale panel construction were abolished, new housing construction plunged from 24,700 dwellings in 1990 to 6,200 dwellings in 1996. There was a similar trend in other countries in transition. Bulgaria, Estonia and Latvia experienced a particularly pronounced decline, reflected in a record low of new dwellings per 1,000 inhabitants (table 9). **Slovakia underwent a recession in**

FIGURE IX
Land price dynamics, 1993-1997



Source: Litomeritsca, 1998.

While market prices of urban land are reported to be as high as US\$ 510 per square metre depending on the location, the price of State land is determined by a formula based on the size of the town (Bratislava is the most expensive), and some basic amenity considerations (e.g. central versus peripheral location). Sales prices are not

TABLE 9
New dwellings per 1,000 inhabitants in selected countries in transition

Country	1980	1990	1996
Bulgaria	8.4	2.9	1.0
Croatia	n/a	3.9	2.8
Czech Republic	7.9	4.4	1.4
Estonia	9.8	4.8	0.6
Hungary	8.3	4.2	2.8
Latvia	7.7	5.0	0.6
Lithuania	8.2	6.0	1.9
Poland	6.1	3.5	1.6
Romania	8.9	2.1	1.4
Slovakia	9.1	4.7	1.2
Slovenia	7.2	3.9	3.1

Source: United Nations Economic Commission for Europe, housing database.

TABLE 10
Dwellings completed by type of ownership, 1980-1996*

Year	Municipal rental dwellings		Other public dwellings		Cooperative dwellings		Private owner-occupied dwellings		All dwellings	
	Units	Percentage	Units	Percentage	Units	Percentage	Units	Percentage	Units	Percentage
1980	11 437	100	5 637	100	18 527	100	12 614	100	48 215	100
1990	4 153	36	154	3	10 033	54	10 365	82	24 705	51
1993	2 217	19	151	3	3 474	19	8 182	65	14 024	29
1996	1 428	12	13	0.2	1 306	7	3 510	32	6 257	13

Source: Statistical Office, *Statistical Yearbook* (Bratislava, 1997).

* Number of completed dwellings is compared to output in 1980 = 100 per cent.

new housebuilding with production levels of 1.2 units per 1,000 inhabitants in 1996, i.e. approximately 8 times less than its output in the 1980s.¹⁴

Recession in new housing construction did not affect all housing sectors to the same degree. **The public rental and cooperative sector suffered the most decline.** The decline in new cooperative construction was sharper than that in municipal rental housing. As table 10 shows, in 1996 levels of cooperative and municipal rental housing construction were 7 per cent and 12 per cent of the 1980 output. However, the most drastic change is evident in the construction of other types of public housing (company housing etc.) which by 1996 had virtually disappeared. Even the owner-occupied sector experienced a dramatic decline from about 12,614 dwellings in 1980 to slightly over 3,500 in 1996.

In 1997, the housebuilding industry started to recover. The number of completed dwellings in the public rental, cooperative and owner-occupied sectors grew. Data indicate that 7,142 dwellings were completed that year. Housing starts in 1997 doubled compared to 1996. It can be concluded that this upward trend will continue in the near future, especially in the owner-occupied sector, where new housing construction is growing rapidly. Data for 1997 indicate that housing starts of owner-occupied housing in 1997 reached their 1980 levels. However, despite an overall increase in housing investment, housing starts in the cooperative and public rental sector are a mere tenth of their 1980 levels (Statistical Office, 1998).

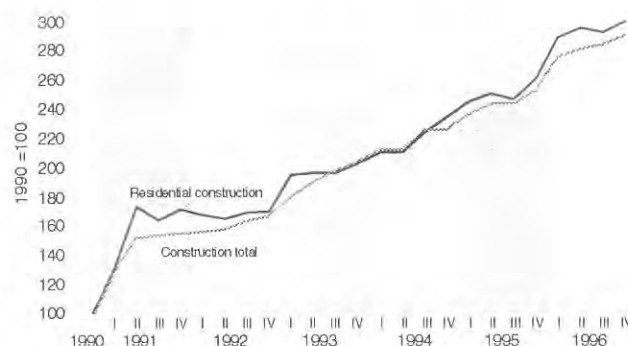
There is no private rental housing. Strict rent control and the fact that landlords have to provide alternative housing to tenants in case of eviction render investments in the rental sector unattractive.

The construction costs of new housing have increased dramatically since the liberalization of prices of basic inputs—building materials and labour (fig. X).

The elimination of production subsidies to State construction enterprises, as well as inflation, have further pushed up construction costs. Residential construction

costs have tripled since 1990 and were particularly high in 1991 and 1996. These trends will obviously affect house price-to-income ratios and exclude many Slovak households from access to the market for new homes.

FIGURE X
Construction cost index, 1990-1996



Source: Statistical Office, *Statistical Yearbook* (Bratislava, 1997).

On the positive side, **new housing is bigger and better.** The average total floor area in new dwellings increased from 82 m² in 1990 to 109.1 m² in 1996, with an average of four rooms per dwelling. Public and cooperative housing in the same period had an average living floor area of 65 m², while privately owned housing had a substantially larger average living floor area of 81 m². With the increase in the prices of building materials in 1992-1993, as well as the lack of mortgage credits, self-help housing construction in rural areas and small towns has declined. Reportedly, most of the privately financed housing is for affluent consumers and/or medium-income households moving up the housing market, which explains the rapid improvement in size and quality.

Municipalities have difficulties acquiring land for residential use. They now have to negotiate the purchase of land with owners should they need it for building purposes. Municipal housing development is no longer a reason for land expropriation, and in view of their financial difficulties, municipalities are not in a strong bargaining position. **Another constraint for new housing construction is the provision of technical infrastructure.** Off-site provision of water supply, sewage networks and heat-

¹⁴ By comparison, in 1996, in Austria, Finland and Switzerland annual new housing production per 1,000 inhabitants was 7.2, 4.1 and 6.1 units, respectively.

ing systems is a statutory responsibility of municipalities. In addition, municipalities are to invest in the development of infrastructure for municipal housing. State utility companies are not obliged to connect new residential areas to the existing infrastructure. Their primary respon-

sibility is to maintain the existing infrastructure. The lack of municipal funds and the inability of the private sector to take over the task of infrastructure development in large-scale residential development areas, are important constraints to new housing development.

III. FINANCIAL FRAMEWORK

Slovakia is moving towards a market-based housing system, with the State's role changing from one of all-powerful controller and direct provider to one of regulator, enabler (e.g. by the use of subsidies) and safety net. Consequently, its goal in designing and implementing specific housing policy instruments is reduced to ensuring a generally healthy, stable and predictable financial environment within which a market can flourish. One effect of being in transition is that those with responsibilities for and interests in the financial aspects of Slovakia's overall housing policies do not share a clear and common framework within which to conduct debates about housing finance (particularly about private finance) so as to identify and prioritize weaknesses.

First, the analysis of housing finance will provide an overview of housing expenditures. Secondly, it will explore the flow of funds separately for each housing tenure,¹⁵ because each presents some distinct financial characteristics or problems in terms of:

- The balance of driving forces—between the market and State intervention;
- Sources and use of public and private finance;
- Costs to the occupier (affordability).

A. Overview of housing expenditure

Using a broad definition of **housing investment** (or "residential construction"), that is covering both new building and capital expenditure on maintenance and repairs, the following figures are available:

TABLE 11
Housing investment
(In millions of Slovak koruny (SK))

	1990	1994	1995	1996
All construction	47 952	43 984	52 632	64 126
Residential construction, of which (in %)	12 192	12 693	12 712	16 223
New and renovated dwellings	86%	81%	68%	65%
Maintenance and repair...	14%	19%	32%	35%

Source: United Nations Economic Commission for Europe, *Annual bulletin of housing and building statistics for Europe and North America*.

A very important sub-set of "residential construction" is the production of new housing. Its volume fell dra-

¹⁵ The private rental sector will not be discussed, since it has an insignificant role at the moment and is unlikely to experience growth in the near future.

matically in the 1980s and the early 1990s. In recent years production has been under 7,000 homes per year.¹⁶

Household expenditure on housing in all tenure types was less than 6.9 per cent of monthly income in 1997.¹⁷ Utilities, on the other hand, consume twice as much of the household budget. Overall, in 1997 household expenditure on housing was much lower than in western Europe. Further detailed information on housing expenditure in different tenure types is shown in table 12.

TABLE 12
Household expenditure on housing and related costs, 1996

Cost category	SK per month per household			
	Public housing	Co-ops	Privately owned flats	Family houses
Housing*	399	419	346	363
Energy costs ¹⁸	825	857	845	1 070
Water + sewerage	112	107	109	48
Municipal utilities	87	101	99	28
Real-estate tax	-	-	-	44
Total housing costs	1 423	1 484	1 399	1 553

Source: Microcensus Survey 1996, Statistical Office, Bratislava.

*Rent, maintenance, loan repayments.

Ideally an overview of a country's housing finances would include a summary of the sources and destinations of private finance for housing investment. **Both the "stock" of private housing finance and its annual "flow" should be tracked.**

Sources include:

- Loans for corporate bodies that build or renovate housing—developers, institutional landlords (both

¹⁶ Those trends were explored in more detail in chapter II.

¹⁷ In most west European countries the average household expenditure on housing is in the range of 16-22 per cent.

¹⁸ Central heating and charges for hot water account for the bulk of energy costs.

Components of energy costs (SK)

Total energy costs.....	825	857	845	
• Central heating + hot water.....	588	639	620	
• Electricity.....	166	168	165	
• Gas.....	71	50	60	
• Solid fuels, electricity, gas.....				1 070

Source: Microcensus Survey 1996, Statistical Office, Bratislava.

private and public), etc. These loans can come from a variety of sources: directly from the “wholesale” financial markets or from general or housing-specialist financial institutions (banks, institutions specializing in mortgages, etc.);

- Loans for private individuals investing in housing—individual owner-occupiers, small groups of owner-occupiers, small private landlords. These loans come from general or housing-specialist financial institutions;
- Equity released by the sale of housing (owned by either individuals or corporate bodies);
- Other financial resources (excluding loans and property equity) of corporate bodies that build or renovate housing—e.g. profits, reserves;
- Private individuals’ own financial resources (excluding loans and property equity)—e.g. savings, “sweat-equity” of self-builders.

Destinations include:

- Short-term finance—generally for the construction of new homes;
- Purchase of new homes;
- Improvement or renovation of existing homes;
- Purchase of existing homes.

It would be very useful to develop a clear overview of households’ housing expenditure. This would help to highlight, and broadly quantify, the weaknesses and gaps in the current financial framework. It would also help to ensure that policy makers take measures to stimulate the availability of private finance.

B. Public expenditure on housing

Different countries can have slightly different ways of accounting and presenting “public expenditure on housing”. For example, some countries include energy subsidies in the figures. In others, housing benefits for low-income households are part of their general income-support systems. Many ignore tax incentives. Most ignore the “expenditure” (in the sense of future income foregone) resulting from selling public assets, including public housing, at a discount. In Slovakia energy subsidies are included in the overall figures for public expenditure. Expenditure by the State Housing Development Fund is treated separately, presumably on the grounds that the Fund is intended to be a self-contained arrangement, in terms of both day-to-day control and its funding. Expenditure funded by sales of public assets is also treated separately.

Therefore, the classification of public expenditure shown below is slightly different from that presented by Slovak officials.

State expenditure on housing

State expenditure on housing has fluctuated in the past four years. It has declined sharply in 1998, to SK 4,106 million. Interest subsidies have almost disappeared. However, the proposed near-cessation of interest subsidies in

1998 appears to be in breach of obligations and may not be sustainable.

TABLE 13
Direct expenditures* on housing subsidies from
the annual State budget
(In millions of SK)

	1995	1996	1997	1998
Improvements to energy efficiency	132	120	120	40
Interest subsidies*	2 082	1 825	1 488	6
State premium for the Contract Savings Scheme	1 776	2 900	3 000	3 260
Contribution to the State Housing Development Fund	0	800	1 160	800
Other	325	550	140	0
Subtotal	4 315	6 195	5 908	4 106

Source: Ministry for Construction and Public Works.

* Interest subsidies relate to an old programme. No new loans are being made under it; some of the old loans have another 30 years to run.

Heating subsidies are paid out under an old programme of public expenditure. In 1995 heating subsidies from the annual State budget stood at SK 2,400 million; in 1998 they dropped to 1,600 million. The intention is to phase them out gradually, although no specific end date has been set.

TABLE 14
State expenditure on housing
(In millions of SK)

	1995	1996	1997	1998
Housing subsidies	4 315	6 195	5 908	4 106
Heating subsidies	2 400	2 500	2 600	1 600
Total	6 715	8 695	8 508	5 706
Overall State budget	167 400	190 700	208 000	184 800
Housing and heating subsidies in overall State share of budget	4%	4.6%	4.1%	3.1%

Source: Ministry for Construction and Public Works.

As table 14 shows, Slovakia now spends 3-4 per cent on housing. Under the socialist regime, when all housing production and consumption were heavily subsidized by the State, almost 8 per cent of the State budget was spent on subsidies for housing (and utilities). The rapid moves since then towards a market system and the State’s withdrawal from its dominant role have been mirrored in the level and distribution of public expenditure. Although the general trend towards less public expenditure on housing is undeniable, **to get the full picture it is necessary to examine in detail what is and is not included in the State expenditure figures.** For example, grants from the National Assets Fund (i.e. proceeds from the privatization of State assets) to the State Housing Development Fund—

in the range of SK 78 million in 1998—and to municipalities for various housing projects—close to SK 1,500 million in 1998—are excluded from those estimates.

The major forward-looking public expenditure programmes on housing are discussed in more detail below, especially the State Housing Development Fund, the proposed housing allowance scheme, and the State premium for the contract savings scheme.

State Housing Development Fund

Established in 1996, the State Housing Development Fund is intended to become a self-financing fund where, to quote the "Conception of the State Housing Policy by 2000", "the required [public] resources for housing development will be concentrated. From the Fund three main elements of housing development will be supported: new construction of housing and lodgings, completion of unfinished housing developments, and renovation of the existing housing stock, including energy savings". Similar self-financing, or "revolving", funds have been established in other countries in transition. In 1996, the Fund's income was SK 860 million, and in 1997 it was SK 1,700 million. Its projected income for 1998 is detailed in table 15.

TABLE 15

Projected income for the State Housing Development Fund, 1998
(In millions of SK)

Loan repayments	44
Loan interest	56
Interest on cash held by the Fund	18
Grant from the State budget	800
Grant from the National Assets Fund*	78
Loans taken out by the Fund (Government bonds)	2 500
Total	3 496

Source: Data supplied by officials, Bratislava, May 1998.

* Refers to proceeds from the privatization of State assets.

The original plan was that "self-financing" status would be achieved within 10 years, which in May 1998 seemed unrealistic. The Fund operates by giving out both loans at low interest and grants, to individuals and corporate bodies. In practice, its activity centres on loans. The grants are available in particular to young couples (aged under 35), with a higher grant for those with young children.

TABLE 16

Transactions by the State Housing Development Fund, 1998

	Loans	Grants	Interest-rate subsidies	Total
For new self-contained housing	2 460	525	15	3 006
For other new housing (hostels etc)	65	-	-	65
Energy efficiency work	90	66	-	156
Housing improvements	87	4	-	91
Major repairs	60	95	-	155
Completion of unfinished developments.....	-	-	-	-
Total	2 770	690	15	3 473

Source: Data supplied by managers of the State Housing Development Fund, Bratislava, May 1998.

Over 90 per cent of the Fund's business is with individuals rather than corporate bodies. Individuals can take out loans of up to SK 500,000. In 1997 88 per cent of the transactions were loans and grants for new housing, while 12 per cent were loans and grants for housing improvement. It would seem that households on modest incomes are able to make good use of the Fund, with all eligible households getting the loans/grants they require in due course, and that the spread of the Fund's activity was broadly equitable between different parts of the country. Yet, there are concerns that the Fund primarily benefits better-off households, and that it is not clear which households are getting priority. It has been suggested that ceilings should be introduced both on the size of the properties (e.g. 94 m² for a flat, 150 m² for a house) and on household income. In addition, it might be appropriate to direct more of the Fund's resources towards the construction of new public housing for rent.

*Municipal public expenditure on housing*¹⁹

In theory, the municipalities can invest in housing, through the formal mechanisms of Municipal Housing Development Funds, in parallel with the State Housing Development Fund. In 1998, an extra SK 1,500 million is expected to be granted from the National Assets Fund to municipalities to enable them to fund a range of works, including completion of half-finished building projects, infrastructure improvements, accommodation for Gypsies, works to listed buildings. However, the National Assets Fund is not a long-term source of public money, at least not for municipal expenditure on housing projects.

Municipalities are formally responsible for public housing and are also entitled to the heavily discounted receipts from "right-to-buy sales". At the moment it is not clear whether the municipalities will in reality have a significant long-term role in funding housing investment.²⁰ One aspect of the municipal expenditure on housing needs to be discussed in more detail: privatization expenditure.

Privatization expenditure refers to the heavily discounted sales of public housing (the average discounted sales price is only SK 20,000, which is about 5 per cent of the open market value). It needs to be interpreted as a form of "expenditure" in that:

- Public expenditure on other housing programmes could have been greater if the receipts from sales had been greater; and
- At least some of the housing sold will have to be replaced because the need for subsidized housing will exceed the supply. The receipts-per-sale fall well short of the cost of a replacement home.

Admittedly, the low rents, and the substantial future repair costs of many of the dwellings, lend weight to the argument that the State is in effect disposing of liabilities

¹⁹ Chapter V comments more generally on the uncertainties surrounding the role of municipalities in housing.

²⁰ The "Conception of the State Housing Policy by 2000" states that "under the conditions of the market economy the responsibility for procuring one's housing has definitely shifted [from the State] to citizens".

rather than assets. But that argument will weaken once rents are permitted to rise to more realistic levels. Furthermore, the experience of other countries shows that privatization is no guarantee that public subsidy will never again be needed.

Housing allowances

The introduction of a housing allowance—providing poorer households with additional income specifically to help with their housing costs—is an integral part of the reforms envisaged in the “Conception of the State Housing Policy by 2000”. It is particularly linked to the intended substantial rise in rents for public housing. Although a significant amount of planning has been done (with the assistance of the United States Agency for International Development (US/AID), no definite timetable has been set for the introduction of the housing allowance.

The practice of providing demand-side subsidies (i.e. housing allowances) to low-income households is common in many countries. However, the reasoning behind the policy can differ. US/AID, in its report to the Slovak Government, argues that, “empirically, it has been shown that consumer-based subsidies such as housing allowances are more efficient and equitable means of providing housing solutions than direct production (e.g. public housing) or indirect (e.g. tax rebate) subsidy schemes” (US/AID, 1998). Another viewpoint, more common in Europe, is that a mixture of both demand-side and supply-side subsidies is appropriate, particularly when a market mechanism is not properly operational. Slovakia appears to wish to follow the “mixed” route.

The basic formula for a housing allowance is simple:

$$[\text{Housing allowance}] = [\text{eligible housing costs}] \text{ less } [\text{what the household ought to pay from its own resources}].$$

Yet, behind this simple formula, there are many complications and difficult choices for policy makers. The cost of introducing the housing allowance scheme is estimated to be SK 1,600 million in its first full year. This assumes that about 20 per cent of households (i.e. 450,000) will successfully claim a housing allowance (out of the 30 per cent of households that might, at least on paper, be eligible) and that the average payment would be SK 300 per month. This public expenditure line is not, it seems, part of the State expenditure on housing but part of the general social security expenditure.

This report does not attempt to provide a detailed critique of the proposed housing allowance. Three observations are offered, however:

(1) It is difficult to reconcile the goals of fairness and simplicity, particularly in respect of the links between any housing allowance system and a country's other income support systems. There is no easy compromise solution, but policy makers should take comfort in the fact that these tensions are common and be wary of policy advisers who claim “their” system solves all these problems;

(2) The housing allowance is proposed to embrace all tenures. In principle, this is commendable and may enable Slovakia to avoid some of the difficulties experienced by other countries that have tenure-specific hous-

ing allowances and then find it politically difficult to change to one “neutral” system. On the other hand, this ambitious step also has some practical difficulties. For example, owner-occupiers' housing costs vary enormously and can be difficult to keep track of. This difficulty may have to be given more attention;

(3) The housing allowance is intended to cover both housing costs and utility costs. This option is attractive when many housing providers, particularly of blocks of flats, are responsible for both the housing and its utilities. But it undermines the “market” signals, to both consumers and suppliers, about appropriate consumption patterns and prices. Take the example of energy costs. The incentive for the householder to consume less energy and the pressure on the provider to make this possible become much less apparent if 20 per cent or so of households (concentrated in flats rather than houses) do not see a clear link between their income and their energy costs.

There would be another source of State expenditure on housing if **tax incentives** were introduced to encourage housing provision. The Conception of the State Housing Policy by 2000 argues that the revival of the housing construction sector should be supported by tax tools and that the Act on Income Tax should be amended to this end. One suggestion is to make interest payments by private individuals tax-deductible. Another is to create tax incentives for institutional investment in rental housing. However, no decision has yet been made.

C. Owner-occupation

This sector is to be the dominant one in Slovakia. In 1991, 51 per cent of homes were owner-occupied. Driven mainly by heavily discounted sales of flats in public and cooperative housing to sitting tenants, it is forecast that about 75 per cent of homes will be owner-occupied by the end of 2000. There is some uncertainty as to whether the volume of sales will in fact be this high. One important source of growth in homeownership is the provision of new homes. Although no specific target has been set for the owner-occupied share of newly developed housing, in recent years it has been over 50 per cent (up from some 30 per cent in the early 1990s) and it is likely to be the dominant tenure of new housing in the future.

Apart from the important underlying common legal features of the rights and responsibilities of individual ownership, the owner-occupied sector in Slovakia may at this time be more usefully described as a number of sub-sectors, each with its own variation in funding mechanisms, accessible to different households, with different problems and different State intervention:

- Homeownership for households with very high incomes and/or assets—no current or planned State intervention;
- Homeownership for middle-income households—significant State intervention envisaged, at least in the early years of developing this new market and its funding mechanisms;
- Homeownership for households exercising their right-to-buy their cooperative or public housing—in the medium term, once the initial right-to-buy

flood has subsided, the top end of this subsector is likely to become part of the middle-income subsector; the bottom end, of as yet unknown size, may become a (problematic) subsector for low-income households;

- Homeownership for households that have built their own housing mainly in rural areas.

1. NEW FINANCIAL INSTRUMENTS

This section focuses on homeownership for middle-income households, affordability and options for housing finance. A number of new financial instruments have been introduced, aimed particularly at households on middle incomes.

*Contract savings for housing*²¹

The system of contract savings (*Bausparkasse*) was introduced in Slovakia in 1992 with the enactment of the Act on the Housing Savings Scheme. This savings system is the most widely applied instrument for helping individuals finance their own housing needs; over 20 per cent of the population participates. Two contract savings institutions operate in Slovakia: the First Slovak Building Savings Bank (PSS) has about 80 per cent of the market and VUB Wustenrot the remaining 20 per cent.

The key element of the contract savings system is the combination of savings and a loan. Savers set a target sum upon entering into the contract with the contract savings institution. This target sum should be spent on housing. The maximum target sums are SK 5 million for PSS and SK 2.5 million for VUB Wustenrot savings contracts. During the first period, regular instalments are paid into the savings account and a State premium is given. The savings bear a fixed interest rate of 3 per cent. In addition, an annual tax-free State premium worth 30 per cent of the savings is granted, capped at SK 6,000 a year. The combined yield of the savings (interest and premium) is about 13 per cent. When a minimum of 50 per cent of the target sum has been saved during a period of at least two years, participants can apply for a loan on favourable terms. The loan amounts to the difference between the target sum and the amount already saved, including the State premium granted. The loan bears a fixed interest rate of 6 per cent; its maturity can be 8, 13 or 18 years, depending on the type of contract, the financial position and the wishes of the applicant.

Formally, the contract savings system is limited to private individuals only. Neither condominium associations, nor housing cooperatives can use it. The "Conception of the State Housing Policy" proposes to "make the necessary legislative changes to enable organizations to borrow from the contract savings schemes (but without access to the State premium)". In practice, PSS has already granted loans to legal entities to support the production of new housing. *The loans must be used for housing purposes,*

such as purchase, construction, modernization or conversion. Purchasing housing under the privatization scheme is included as well. (This, in effect, creates a double subsidy: first, house prices in the privatization scheme are heavily undervalued and, secondly, a State premium is given in the contract savings scheme.)

During the savings period, participants can claim their savings at any time. When the savings are used for housing purposes, the State premium is granted. If the savings are used for other purposes, the State premium is not available (before 1996 this restriction on access to the State premium did not exist). Interim loans, bridging the savings period, also exist. This allows participants to have the desired resources at their disposal, before sufficient savings have been made. The interest rates differ from 5 per cent at PSS to 8 per cent at VUB Wustenrot. During the period of the interim loan, roughly until the contract savings loan is granted, saving is still compulsory.

The contract savings scheme is the most widespread savings scheme in Slovakia. By the beginning of 1998 about one million contracts had been started, which represents nearly 20 per cent of the Slovak population. For contracts started in 1997, the average target amount to be saved was SK 174,000. Between 1992 and 1997 the two contract savings institutions paid out SK 14,000 million in State premiums, withdrawn savings (both for housing and non-housing purposes) and loans.

Half the share of loans and savings is earmarked for investment in existing housing (renewal, improvement, etc.). Purchase and new construction amount to about 25 per cent. Other purposes, like conversion of non-residential premises, are less important. The explanation for the relatively high share going to existing housing may simply be that the sums required to be saved are significantly smaller than for the purchase of a new home. *The success of the contract savings scheme depends on there being a significant proportion of savers who do not apply for a loan but merely save.* The figure for non-borrowers is around 44 per cent of all savers (and they save for an average of about 6 years). This means that 56 per cent of the savers have access to 100 per cent of the loan fund. Recent legislative changes, requiring spending of the savings on housing purposes, are likely to put off non-borrowers. The number of new savings contracts fell from 268,000 in 1996 to 130,000 in 1997. This might constitute a threat to the contract savings system. A reduction in the number of non-borrowers below a certain minimum would lead to shorter loan maturities for borrowers.

Mortgages

The "Conception of the State Housing Policy by 2000" proposes to establish legislative conditions for the provision of mortgage loans, including a system of State insurance for mortgage loans provided for housing construction. The Act on Banking made it possible to introduce mortgage loans in 1995. So far, however, mortgages are playing only a marginal role in the Slovak housing system. By early 1998, only one bank, Všeobecná Úverová Banka, had obtained a licence to grant mortgages, and only two mortgages had been granted.

²¹ Information for this section was provided by the First Slovak Building Savings Bank.

Although still underused, it is appropriate to describe the framework for mortgages in Slovakia. Mortgage loans are defined as long-term loans, earmarked for property investment, like purchasing, building, maintaining or converting residential or non-residential property. Mortgage loans are secured by mortgage liens. Mortgage loans were originally to be refinanced only by publicly negotiable mortgage bonds. This restriction has been eased recently.

Both private individuals and corporate bodies are eligible for mortgages. Their maturities vary from 5 to 30 years for private individuals and from 5 to 15 years for corporate bodies. There is also a significant difference in interest rates. At present (early 1998) private individuals pay 13.5 per cent, whereas corporate bodies pay 17.2 per cent. Mortgages can be granted up to a maximum of 60 per cent of the value of the property. The maximum level applies for mortgage loans refinanced by mortgage bonds. A bank may decide to grant a mortgage for a higher percentage, but must find other refinancing resources. A maximum level is set for the proportion of the mortgage not refinanced by mortgage bonds. The total value of claims above the 60 per cent limit is restricted to a maximum of 15 per cent of the total volume of mortgage loans.

Issuing mortgage bonds requires special legal acts to protect both the bank and the bond investor from too high a risk. This protection is also needed to be able to reduce the cost of mortgage loans. In case of bankruptcy the claim of the mortgage bank has priority over other claims.

The State Housing Development Fund is an important source of low-interest loans, and some grants, for owner-occupiers. In addition to the contract savings, mortgages and grants/loans from the State Fund, some other means of financing owner-occupation should be mentioned. Commercial loans are another source of financing, though their impact is really marginal. During the first years of transition, only short-term and medium-term loans were available with 15-20 per cent interest rates. Potential borrowers were, understandably, not keen. More feasible loans for housing purchase or renovation were introduced in April 1995 by the First Slovak Savings Bank (Slovenská Sporitelna). These loans have a 15-year maturity and a 12.5 per cent interest rate. During the first six months, 688 loans were issued, totalling SK 152 million. Due to the low volume of new construction, housing loans constitute only a small share of the total outstanding loans of commercial banks.

The capital market in Slovakia is still underdeveloped. Between 1992 and 1995, inflation was higher than the growth in deposits. The availability of long-term loans is a prerequisite for a properly functioning capital market. Pension funds and insurance companies still do not have large funds at their disposal. The liquidity of the Slovak banks is still low. The fact that some banks are confronted with bad loans makes things even worse.

Assuming an average annual household income of SK 195,696 and property prices of SK 1 million for existing homes and SK 1.4 million for newly-built ones, the average price is 5-7 times the average income. At the lower end of the price scale, say SK 800,000, the price/income ratio is 4. At the lowest end, the resale value of many public housing flats is around SK 500,000, but certainly these estates are not the most desirable places to live in.

2. ACCESS TO HOMEOWNERSHIP: COSTS AND AFFORDABILITY

TABLE 17
Housing costs in the owner-occupied market, 1997

Location	Newly built housing*	House price/income**	Existing housing*	House price/income**
Bratislava—top residential area	2 100 000	10.7	1 050 000	5.3
Bratislava—good residential area	1 400 000	7.1	1 000 000	5.1
Towns up to 30 km from Bratislava	1 050 000	5.3	840 000	4.2
Other major towns of 30,000+ residents	1 120 000	5.7	800 000	4.08

Source: Statistical Office, *Statistical Yearbook 1997*.

* Estimates are in SK based on house price data provided by PSS and refer to a standard 70 m² flat.

** The ratio is based on the average annual income for two wage earners in 1997.

TABLE 18
Access to homeownership: financing arrangements*
(In SK)

Financial source	Term (years)	Interest rate (per cent)	Amount	Monthly instalments
Loan from State Housing Development Fund	30	3	500 000	2 108
Contract savings plus State premium			130 000	
Contract savings loan	13	6	120 000	1 250
Commercial loan	10	12	250 000	3 515
Total			1 000 000	6 873

Source: Prva Stabebni Sporitelna.

* The example refers to the purchase of a SK 1 million apartment, making use of all the main subsidies currently available.

These outgoings (before maintenance or utility costs) represent about 42 per cent of the average annual household income of SK 195,696. The data refer to a dual-income household. The cost figures for owner-occupation (table 18) compare unfavourably with typical figures from countries with mature owner-occupied markets. They enjoy price-income ratios of 3-4 and the proportion of income spent on housing costs at the point of entry to the tenure (when the proportion is at its highest) is no more than 35 per cent. Capital cities usually have higher price-to-income ratios.²² Estimates suggest that in 1990 Bratislava had a ratio of 6.5, which was quite similar to that in Budapest and substantially lower than Warsaw's 10.8 (UNCHS and World Bank, 1993). This means that most Slovaks cannot afford the normal entry route to owner-occupation. Access to newly built housing is especially problematic for middle-income households in Slo-

²² For example, the house price-to-income ratio in the capital cities of France is 4.2, the Netherlands 4.8, Sweden 4.6, the United Kingdom 7.2 and the United States 3.9. The data draw on an extensive survey of housing indicators in 1990 (UNCHS and World Bank, 1993).

vakia, since it is 30-50 per cent more expensive than existing housing.²³

Self-built housing provides more affordable access to owner-occupation. Historically, particularly in small towns and rural areas, this has been a significant route to owner-occupation in Slovakia, often publicly assisted by low-interest loans or grants. However, in recent years there has been a significant decline in self-building due to rising construction costs and declining State subsidies for housing.

Self-built housing has several advantages:

- The resources can comprise "sweat equity" as well as conventional financial equity. This is particularly important when the latter is in short supply;
- For self-builders from socially excluded or marginal groups, it is a powerful means of building confidence and fostering social inclusion.

The apparent disadvantages of self-building are that:

- It is slow (typically 3 to 4 years);
- It is most easily undertaken for single-family homes and is therefore less suitable for dense urban environments;
- It is not appropriate for all household types (e.g. older people);
- Finished standards can be variable.

Some disadvantages can be partially overcome, for example by using appropriate technologies and system-building techniques, which allow easy assembly of pre-fabricated products on the site and ensure uniform quality standards.

The right-to-buy cooperative or public housing provides the most affordable access to homeownership. For public housing, the discounts are very substantial, enabling residents to buy their flats for around 5 per cent of their market value (the average price is SK 20,000). For cooperative residents, "the right-to-buy" price is the value of the outstanding State loan. It was not possible to establish a "typical" value or even a "range" of values of such loans. The potential long-term costs of maintenance and improvement are not estimated in the right-to-buy price calculations. Some of these subsequent costs are going to be substantial and it is doubtful that all buyers (or their successors) will be willing or able to pay these costs.

D. Public housing

Two types of public housing ("municipal" and "State") will account for about 10 per cent of the Slovak housing stock by the year 2000, down from 28 per cent in 1991. The explanation for this massive reduction is overwhelmingly privatization (right-to-buy for sitting tenants) and also some restitution. According to the "Conception of the State Housing Policy by 2000", Slovakia should earmark

approximately 20 per cent of the existing rental stock for socially weaker groups. This policy objective is unlikely to be met.

1. INCOME AND EXPENDITURE ACCOUNT FOR PUBLIC HOUSING

Available data on public housing income and expenditure are presented in tables 19 and 20. Overall, income and expenditure were not quite balanced: there was a deficit of just under 1 per cent of the total turnover (SK 7,348 million - SK 7,281 million = SK 67,000). The income from heating charges and subsidies exceeds the expenditure. It appears therefore that there is a hidden cross-subsidy from this cost area to that of management and maintenance work.

TABLE 19
Expenditure on public housing, 1996*

	Total (thousand SK)	Per flat per month
Management and administration	960 084	346
Indoor repairs and maintenance	204 128	74
Outdoor repairs and maintenance	794 095	286
Heat production and distribution	4 000 096	1 443
Depreciation	874 287	315
Other (mainly fees and taxes)	515 644	186
Total	7 348 334	2 650

Source: Ministry for Construction and Public Works.

* Data refer to a representative sample including 94 maintenance companies, responsible for 231,000 flats.

TABLE 20.
Income from public housing, 1996*

	Total (thousand SK)	Per flat per month
Rent for the flats	752 249	271
Rent for non-residential property	273 663	99
Heating charges	4 262 472	1 537
Heating subsidy	1 075 231	388
Revenue from other commercial activities ..	917 620	331
Total	7 281 235	2 626

Source: Ministry for Construction and Public Works.

* Data refer to a representative sample including 94 maintenance companies, responsible for 231,000 flats.

The deficit between income and expenditure is currently being managed by simply not carrying out the long-term maintenance work that is required. **The backlog of repairs and improvements in public housing is increasing.** It is estimated that the value of the backlog of repairs and improvements, averaged across the public housing stock, is SK 100,000 per home. However, some less optimistic scenarios estimate the backlog to be three times as large. Given that the poorest condition panel-technology flats require up to SK 580,000 each, it seems

²³ A recent estimate by a local housing expert, Ms. Szolgayova, suggests that only 16 per cent of households could afford a newly built home.

very likely that the SK 100,000 figure is a significant underestimate. Each SK 100,000-per-home can also be expressed in revenue terms: SK 12,000 per year, or SK 1,000 per month. Assuming that SK 100,000 is the absolute minimum, this can be added to the running costs (excluding utility costs) to produce an average economic cost for public housing of about SK 2,000 per home per month. This is over 6 times the current rent level.

Because of the backlog in repairs it seems very unlikely a rent of SK 2,000 per month would be sufficient to meet all the costs. However, it can be questioned whether it is right to require the current tenants of public housing to bear the brunt of past mistakes. Instead, the country as a whole, that is public subsidy, should carry some of these costs. The new (right-to-buy) owners will need to contribute to the cost of the repairs. There is uncertainty about their willingness and ability to do so.

2. RENT LEVELS AND AFFORDABILITY

There is a single national rent-setting policy. Rent levels reflect the size of the flat (in m²) and the level of its amenities (see table 21).

TABLE 21
Rents in different categories of public housing
(SK per square metre)

Category	I	II	III
Living floor space	4.3	3.0	2.3
Useful floor space	2.0	1.7	1.7

This rent-setting formula is uniform across Slovakia: it does not vary according to region or popularity of the area/building. The rent of an average-size and average-quality flat is about SK 300 per month. Average household expenditure on housing is set out in table 12. Rental housing is universally affordable, rent accounts for 1.8 per cent of the household budget (dual-income household with an average monthly salary of SK 8,154). If the cost of heating, water supply, electricity and communal services is added to the monthly rent, households still pay less than 7 per cent of their income for public sector housing (1996). However, poorer households (pensioners, unemployed) spend close to 16 per cent (Statistical Office, 1997). By comparison, in more mature markets rents are much higher: 18 per cent in Canada, 21 per cent in France, 18 per cent in the Netherlands, 25 per cent in the United Kingdom and 25 per cent in the United States.

The "Conception of the State Housing Policy by 2000" sets out the broad way forward for bridging this gap between current income and required expenditure. It recommends that the rents of flats owned by municipalities, the State, etc. should gradually be liberalized so that realistic rents are charged by 2003. The basic rent should take into account depreciation repair work and maintenance, administrative overheads and profits (max. 5 per cent). Furthermore, it states that simultaneously with the first adjustment of rents it is necessary to provide subsidies to low-income households. None of the above steps has yet been implemented.

E. Cooperatives

The cooperative sector has been a very important means of providing housing in Slovakia since 1958. At its peak, it held 22 per cent of the housing stock. It is now in decline as the right-to-buy removes stock from the sector. By January 1998 about 28 per cent of the cooperative housing had been bought. Since 1993 the construction of new cooperative housing has been halted. Currently the assets of housing co-ops are estimated at SK 60 billion.

The original financing arrangements were as follows:

- One third was paid by the individual members of the cooperative;
- One third was a State loan, heavily subsidized (1 per cent interest rate, over 30 to 40 years);
- One third was a State grant.

The physical layout and design of cooperative housing are similar to those of public housing. The average flat is 63.8 m². Housing cooperatives own close to 376,000 flats, managed by 127 organizations under the umbrella of the Slovak Union of Housing Cooperatives. The stock consists mostly of blocks of flats, many of which require considerable maintenance and improvement. Anecdotal evidence indicates that their quality is better and their technical problems are not as bad as in the worst public housing projects. Generally, however, cooperative housing is not ideal (either as an arrangement for managing and maintaining housing, or in terms of its physical condition in the older buildings). Secondly, it is not favoured as a growth sector for the future. Yet, there appears to be no policy for managing the transition or the decline in the sector. Perhaps it is seen as secondary: it can continue to stagnate or wither for a few more years without creating pressing problems for policy makers. The fact that it is difficult to obtain reliable data and informed comments confirms that there is a policy vacuum in respect of cooperatives.

One of the consequences of allowing the privatization of cooperative housing is that many blocks of flats now have owners as well as tenant members. Some flats are privately owned, others are owned by the cooperative. Apparently, the arrangements for maintenance and services in these circumstances vary. The housing costs charged to tenant members of the cooperative are similar to those costs in public housing (table 12). Unless properly regulated, mixed ownership can cause substantial problems, with a tendency to set the level of expenditure and management energy so that it is acceptable to the owner who is least willing (or able) to contribute. It can lead to an uneven distribution of the costs between the different owners with, say, municipal landlords having to subsidize reluctant and/or poor owners. It seems that these complex issues have not been sufficiently thought through in Slovakia. This is a problem that should be addressed urgently (see chapter IV).

IV. LEGAL FRAMEWORK

Legal development in the transition period

Developing an adequate legal framework for the housing sector is one of the major tasks in the transition from planning to markets. Slovakia has made significant progress in establishing the key legal documents that will enable the operation of its emerging housing and property markets. It is a very complicated process of adjustment, but in simple terms these are the important segments:

- Legislation revising the ownership rights of citizens with respect to land and buildings, the freedom to use and dispose of property;
- Legislation on privatization of public and cooperative housing;
- Legislation on planning and development of housing;
- Legislation on mortgages and savings for housing purposes;
- Legislation on subsidies.

Several acts and subsequent amendments form the basis of the legal framework (fig. XI):

A. The legal framework for owner-occupied dwellings

Slovakia has no housing act, the fundamental right to own property is however included in the Constitution (art. 20). The Civil Code—Act 40/1964, revised by Act 189/1992 and Act 264/1992—includes fundamental provisions on real estate, the acquisition of ownership and co-ownership, and on the lease and sub-lease of flats and non-residential premises.²⁴ Property rights are defined and governed by the Civil Code in accordance with provisions on basic human rights and freedoms laid down in the Constitution. Ownership is a transferable and inheritable right and a person having that right may use the property and dispose of it freely. Flats and non-residential space are owned separately from the ownership of the building.²⁵ Buildings may be owned independently from

²⁴ The Civil Code regulates civil rights. It is divided into eight parts: general provisions, family law, real property rights, law obligations, liabilities for damage and for unjustified enrichment, law of inheritance and concluding and transitional provisions. With respect to housing, part three (real property rights) and regulations about leases are especially important.

²⁵ The Civil Code distinguishes between "ideal co-ownership" and "real co-ownership". In "ideal co-ownership", owners own a proportional share of the building and the land, without the exclusive right to occupy a separate residential unit. In "real co-ownership", each owner owns a certain part of the building, often a separate residential unit, and a share of non-residential spaces and land.

the land on which they are constructed. It is also possible to rent land and build on the rented land according to the Civil Code. Under the Foreign Exchange Act (Public Law 202/1995), individuals domiciled or with permanent residence in Slovakia and legal entities on the Commercial Register are considered as residents and have the right to acquire real estate in Slovakia.

According to the Civil Code, the price of real estate is settled by agreement between the parties concerned. The real transfer tax—5 per cent of the value in the sales agreement—is payable by the seller; however, the purchaser guarantees its payment. For a long time the freedom to choose a contractual partner, to negotiate the transfer of property, mortgages, etc. has been restricted in Slovakia. In that respect the Civil Code, particularly part five, introduced important changes—conditions related to sales contracts, service, credit and loan contracts, rental and lease agreements, etc. Title can be established by means of a contract, a notary deed, or a court ruling on the partition of joint property, the distribution of inheritance or the dissolution of co-ownership.

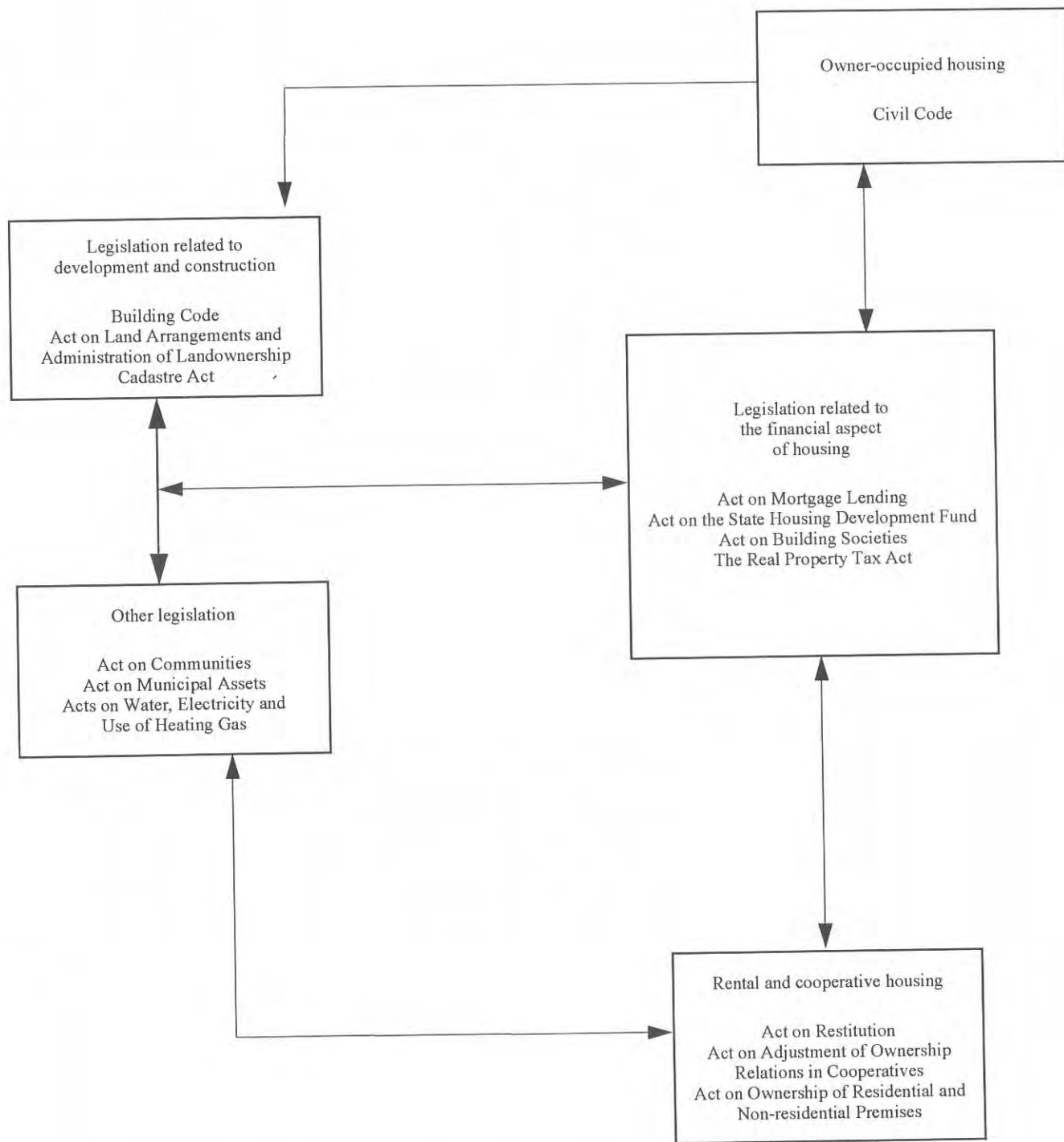
B. Privatization, division of rights and responsibilities in the cooperative and rental sector

The privatization and restitution of housing are an important component of the transition to a market-based housing sector. Several laws are important for the process of privatization: the Act on Restitution, the Act on Adjustments of Ownership Relations in Cooperatives, and the Act on Ownership of Residential and Non-residential Premises, regulating the privatization of municipal dwellings.

The Act on **Restitution**, which was implemented before the Housing Privatization Act, returned property, nationalized after 1948, to the former owners or their heirs. If the property was sold, financial compensation was provided through vouchers from the Restitution Fund. The rights of tenants in restituted housing are regulated by the Civil Code and are identical to those in the public rental housing. It is almost impossible to evict a tenant unless the landlord provides "substitute" housing. Land subject to restitution is divided among owners or heirs, which has fragmented the land ownership structure and restricted the supply of developable land as some claims remain unresolved.

Act 42/1992 on **Adjustments of Ownership Relations in Cooperatives** enabled the transfer of cooperative housing into private ownership. It was based on legal changes in Act 513/1991, which transformed cooperatives into legal entities operating in accordance with the legal regulations stipulated in the Commercial Code.

FIGURE XI
 Legal framework of the housing sector—selected acts



Despite the great interest of cooperative members in the privatization (up to 65 per cent in Slovakia and up to 80 per cent in Bratislava), progress was slow as the annuity had to be paid back at once. The sales price is not differentiated according to location or quality and is well below the market price. Possibilities for transferring cooperative flats into private ownership were further extended by the Act on Ownership of Residential and Non-residential Premises. The exchange of cooperative flats between physical persons is permitted without the approval of the general meeting of cooperative members.²⁶

There are two forms of membership of housing cooperatives: *owner-occupier members and tenant members*. Owner-occupiers have paid the full construction cost (or market price) of the flat. It is not obligatory for them to be members of the cooperative, while for tenants it is. The option of non-member ownership status in housing cooperatives, coupled with privatization, has led to a situation of mixed ownership/membership both in individual buildings and within housing cooperatives. This creates barriers to the efficient management and administration of this housing stock.

Act 182/1993 on **Ownership of Residential and Non-residential Premises**, revised by Act 151/1995, regulates the privatization of municipal dwellings and the establishment of condominiums. Prices of dwellings are determined on the basis of purchasing costs at the time of construction, minus 2 per cent amortization per year. If the buyer pays 70 per cent cash, there is a 10 per cent discount. The sales prices of dwellings are regulated nationally. Relatively few tenants have taken advantage of the opportunity to become homeowners because of the poor quality of some buildings, the delayed maintenance and repair, and the administrative inefficiency of the local authorities and the cadastre offices. The 1995 amendment to the Act allowed for the privatization of the land associated with the house.

In addition to the transfer of municipal housing, the Act on Ownership of Residential and Non-residential Premises also regulates the general rules for the establishment of condominiums as new entities entitled to manage privatized housing and to collect funds for maintenance and future repair. Condominium associations are optional. Furthermore, the Act stipulates that, in case of mixed ownership, owners and tenants must make identical maintenance contributions.

The **Civil Code** constitutes the basis for contractual agreements to rent, exchange or sub-let a dwelling and for terminating leases. Tenants' rights are incorporated in the Civil Code. The tenants must maintain their flats in good condition. Unless otherwise stipulated in the lease, a tenant is not obliged to take out insurance. Tenants are legally entitled to swap units, which apparently has led to a black market and the payment of key money. Tenant protection is still very strong and it is difficult to terminate a lease. In the case of leases for an unlimited period, alternative accommodation has to be provided if the tenant is evicted.

By entering into a lease, the landlord grants the tenant the right to use the flat until further notice, against compensation. The landlord is responsible for the flat's maintenance during the term of the lease. The tenants must im-

mediately notify the landlord of any repairs that are his responsibility.²⁷ The lease is terminated by a written notice between the landlord and the tenant. If the contract is fixed-term, it expires automatically at the end of the term. At least three months' notice has to be given to terminate agreements made for an unspecified period. They expire at the end of the calendar month thereafter. According to the Civil Code, the landlord can terminate the lease only with court approval.

Rents and services related to rental housing are regulated by the Ministry of Finance, according to Regulation 15/1992 and the Price Act 18/1996. Apparently, controlled rents in municipal rental housing are insufficient to cover operational costs. Anecdotal evidence indicates that in some urban markets with housing shortages tenants sub-let their flats at 5-20 times the official rent.

Act 92/1991 specified the conditions for the transfer of State-owned flats to municipal ownership. Subsequent regulations—Act 263/1993 on **Public Procurement**—set the framework for the repair and maintenance of the municipal rental stock. According to its provisions, municipal companies, or commercial agencies selected through public tender, are responsible for organizing repair work and investment in the housing stock. Recent data indicate that, by the end of December 1995, 70,000 applicants were on the waiting lists for housing. Given that in 1996 and 1997 the municipalities built 3,000 new dwellings, housing shortage is still a problem. In those circumstances, it is apparent that local housing authorities need to develop a monitoring system to control the use of rental housing more efficiently and eliminate the illegal swapping of flats between tenants.

C. Legislation regulating the development process and the financial aspects of the housing sector

Landownership and housing construction

Several acts regulate the management and supply of land: Act 229/1991 on Landownership, Act 330/91 on Land Arrangements, Administration of Landownership, Land-register Offices, the Slovak Land Fund and Land Associations, and Act 307/1992 on Agricultural Land Fund Protection.²⁸ According to the Civil Code, municipal or privately owned land can be leased for an unlimited period of time and used for commercial or residential purposes. Annual rents are regulated by the Ministry of Finance in accordance with Decree 365/1991. Although they vary, annual rents can be as low as SK 5/m².

Land supply, in urban areas in particular, is a serious constraint on new housing development. In addition to the restrictions on the conversion of agricultural into urban land, high fees (in line with Decree 152/1996) discourage the expansion of urban areas. Closely related to the operation of land and property markets is the title registra-

²⁷ If the tenants have to carry out repairs that are the landlord's responsibility, they are entitled to reasonable compensation, provided the landlord has refused to carry out such repairs.

²⁸ These issues are elaborated further in Act 180/1995 on Selected Administration Measures for Arrangements of Landownership and in Act 181/1995 on Land Associations.

²⁶ According to the Commercial Code, para. 230.

tion system. The new **Cadastré Act**²⁹ (Act 162/1995 on Land Cadastre and on the Recording of Title) has created the basis for updating land and property registers and for verifying ownership rights. This information and mapping system assists the administration and taxation of land and property, and mortgage markets. The Cadastre Act includes regulations on subjects (cadastral areas, plots, etc.), contents (geometrical determination and location) of the cadastre and the cadastral system. It specifies cadastral dealings, for example the entry of the rights to the real estate, the revision and renewal of the cadastral system. Furthermore, it highlights the obligatory character of the cadastral data and regulates charges, expenses and sanctions.

Currently, the **Building Code (Act 50/1976)** forms the main legal basis for physical planning and outlines the building regulations. Although the Building Code has been revised several times (Act 103/1990, Act 262/1992, Act 136/1995, Act 199/1995, Act 229/1997) to accommodate changes in the economic and financial environment, the regulatory process of urban development and housing is still too complicated. Additional changes are needed to simplify procedures, streamline the approval process and ensure availability of land. According to the new amendments, the municipality has principal responsibility for commissioning and preparing master plans. It will be necessary to introduce a more flexible planning system and to give municipalities more freedom in land allocation and density regulations.

According to Act 262/1992 and the Building Code, any housing development requires three official permits: a spatial decision for the first preparatory phase, a building permit for construction and a certificate of occupancy for use of the building. An investor intending to develop any construction/reconstruction project has to apply for a *spatial decision*, which is valid for two years (the procedure is set out in section VII, paras. 32-42). A necessary prerequisite is ownership of the land. The process, which takes 3 to 4 months to complete, involves all departments of the municipal administration, utility companies and others. *The building permit* is issued on the basis of the full project documentation for construction within 2 to 6 months. *The certificate of occupancy*—according to Act 262/1992, section VII, paras. 76-85—is issued upon completion of construction. It certifies the quality of construction, the availability of all the certificates and completeness of project documentation, and compliance with building standards. The process might take 1 to 3 months.

The Act on Territorial Planning and Construction provides the framework for the spatial development of human settlements in Slovakia. It defines the goals and tasks of territorial planning and specifies the required territorial planning materials (town planning study, territorial master plan, territorial-technical background documents). More specifically, the Act provides guidelines for the preparation of the necessary territorial planning documentation (territorial prognosis, plan and project) at different levels of the hierarchy: the territory of the whole country, a large territorial unit, a settlement unit and a zone. The approval of the planning documentation, as well as regulations about required territorial decisions, competent bodies, and key participants in the process, are explicitly defined (parts 7 and 8). The Act on Planning with its latest amendment approved in 1997 defines four

planning documents: national spatial plan, regional spatial plans, municipal master plans, area/plot development plans. The Act does not make it compulsory for municipalities to produce master plans. Where such plans exist, however, the authority to approve both master plans and development plans rests with the municipality. The State (regional/district) retains final approval powers for construction plans for specific buildings and issues completion approval for these.

Financial aspects

Housing finance has been one of the major problems during the transition period. **Government regulations on the Housing Savings Scheme—Act 310/1992—established the framework for the operation of a powerful instrument for housing finance.** The Act defined a system to mobilize personal savings for new housing construction and/or home improvement, as well as the conditions for State involvement through subsidy. Through contract savings, building societies have become an important part of Slovakia's financial market. With the accumulated funds from 1.3 million clients, their contribution to the renovation and construction of housing is significant. According to existing legislation, contract saving loans for housing exceeding SK 200,000 are secured by a lien to the underlying real estate by means of a notarial deed. For new housing construction, the building can be used as security provided that construction has reached a certain stage (30 cm above the ground level). This implies that a considerable capital investment needs to be provided up front from private sources to cover the cost of land, project development and initial construction. Thus the potential pool of investors in new housebuilding becomes limited, since the same condition applies not only to the contract savings system, but also to other financial instruments that require a lien.

The key element of the contract savings system is the combination of savings and a loan on favourable conditions, which includes a State premium.³⁰ The contract savings system is limited to private individuals. Recent changes in the system have made *lending conditional upon the use of the loan, as well as the State premium, for housing purposes, such as purchase, construction, modernization or conversion.* This has discouraged ordinary savers from keeping their deposits at below-market interest rates in the contract savings system. To maintain the effectiveness of the system, legislation needs to reinstate the maximum savings period of 6 years and free access to savings.³¹

An important development in the legal framework of the housing sector was the approval of **Act 124/1996 on the State Housing Development Fund** (revised by Act 1/1997). The State Housing Development Fund provides State subsidies to build flats and temporary accommodation, improve the insulation of blocks of flats and family housing, to repair blocks of flats and complete unfinished buildings (art. 1, sect. 1). The Act specifies the terms and conditions for subsidy allocation, the eligibility criteria

²⁹ The Cadastre Act was revised by Act 222/1996.

³⁰ The contract savings system is discussed in detail in chapter III.

³¹ Since these legal restrictions were introduced on 31 December 1996, the volume of savings in the Building Savings Bank has dropped from SK 30 billion to 24 billion and the number of new contracts has halved.

and the responsibilities for the Fund's administration. The Ministry for Construction and Public Works issued Notice No. 203/1996 (revised by No. 136/1997) detailing the technical conditions and the period of construction for projects funded from the State Housing Development Fund.

Act 386/1996 introduced mortgage lending in Slovakia.³² According to the legislation, a mortgage loan is defined as a long-term loan earmarked for the purchase, construction, reconstruction or maintenance of real estate. It is secured by a mortgage lien and amounts to 60 per cent of the appraised value of the property. Mortgages are granted by banks specially licensed for this purpose. Banks, however, find it difficult to repossess the homes of those mortgagors who default. Although banks can apply article 41 of the Foreclosure Order and repossess the property, in practice this is a lengthy and costly procedure. At the moment in the case of bankruptcy a bank's claims come second after tax and wage claims (Bankruptcy and Liquidation Act). Another factor limiting the enforcement of a lien, is the absence of rules on public auction, which is necessary to recover part of the loan. Overall, the legal basis for foreclosure is still weak. Although the Commercial Code stipulates that "when exercising mortgage rights, the mortgagee may sell mortgaged real estate . . .", provided that the mortgagee informs the mortgagor in time of his intentions to exercise his right of lien . . .", in practice this can be quite difficult. Specifically, the eviction of tenants (if applicable) is long and difficult.

The Real Property Tax Act³³ outlines the principal changes in the taxation system (Act 317/1992). Real estate tax is managed by municipal offices. Any owner of land registered in Slovakia is subject to land-value tax. The tax varies from SK 0.5/m² to SK 11.6/m², according to the land's location. The annual tax for building land,

depending on the location, is SK 0.20-9/m². Those low levels of taxation certainly do not create incentives for recycling and redevelopment of urban land for residential or other, more profitable uses.

The building tax applies to houses, log cabins, garages and spaces used for business activity. The tax is based on the overall area of land occupied by the building expressed in square metres as determined on 1 January of the current year. Construction projects that improve the environment or buildings for the socially disadvantaged are tax-exempt.

Other housing related legislation

Important aspects related to the management of the existing housing stock and the provision of technical infrastructure in urban and rural areas were defined in Act 369/1990—Communities Act—and Act 138/1991 on the Management of Municipal Assets. The legal relations between municipalities and the State were changed with the introduction of the principle of local self-government. Municipalities have their own sources of income, but are still dependent on central government transfers to finance municipal activities. Municipalities own property, including housing, and other valuable assets. However, the present legal framework fails to define the responsibility of municipalities for housing.

The supply of water, heating, gas and electricity, including the construction and maintenance of networks, and pricing policies for these services are regulated by: Act 138/1973 on Water and Act 70/1998 on Energy.

Utility companies are State-owned at the moment, but the privatization of the water and sewerage companies is being considered. The current monopolistic position of these suppliers of crucial infrastructure services for urban and rural communities certainly does not facilitate competition or improvement in quality. Furthermore, suppliers are in a position to charge a premium for their services.

³² The legal framework on mortgage lending needs to be interpreted in the context of legal changes affecting the banking system in Slovakia.

³³ There are numerous revisions to this Act which need to be considered.

V. INSTITUTIONAL FRAMEWORK

The transition from a strongly centralized, command system towards a democratic nation based on the principle of decentralized power, presents special challenges with respect to institutional structures, systems and practices. The successful application of decentralized powers requires the existence of institutions with qualified staff at regional and local level within the public sector. A further requirement is that the State level should also push through a real decentralization of responsibility, authority and efficient implementation tools. Furthermore, the operation of a decentralized democratic system requires skills and attitudes that are quite different from those of a centralized system. The formal creation of new institutional structures must therefore also go hand in hand with staff training. The efficiency of institutions is totally dependent on their human resources.

These general needs for new institutions, skills and attitudes are particularly critical in the housing sector. In a market-oriented society, housing services are produced and delivered locally, mainly in cooperation with municipalities and the private sector. Although central legal and financial frameworks must remain the responsibility of the State, creating efficient institutions at lower levels is one of the most important means for securing a functioning housing sector.

A. Distribution of responsibility for housing

The *Principles of the Reform of the Housing Policy in the Slovak Republic* produced by the Government in 1991 formulated a policy of severely reduced State involvement in the housing sector. The State would concentrate on applying incentives to stimulate the private sector. This policy change included a formal transfer of responsibility for housing from the State to municipalities and to the private sector. Neither of these parties was prepared or equipped to shoulder this responsibility.

In particular, the municipalities were facing formidable obstacles in formulating and implementing relevant and efficient local housing policies. Continued strong centralization of policy tools, e.g. rent control, lack of adequate legal and financial frameworks, and non-existence of local political and administrative structures to handle housing issues, effectively prevented the municipalities from carrying out their intended role according to the above-mentioned "Principles" of 1991. So the policy of State withdrawal from housing, combined with the lack of possibilities for municipalities and the private sector to take over the role vacated by the State, was a major contributing factor to the collapse of new housing construction after 1991.

The *Conception of the State Housing Policy by 2000* laid a new foundation for a structured approach to the development of the Slovak housing sector. Within this nationally accepted housing policy framework, the responsibilities of the main participants in the housing sector are clearly defined.

The State has responsibility for:

- Preparing and implementing a national housing policy;
- Creating an institutional framework with clear distribution of responsibility and authority;
- Creating a legal framework;
- Creating financial and economic tools to support housing development;
- Creating and administering social security systems.

The new roles of municipalities are:

- Preparation, implementation and monitoring of local housing policies;
- Indirect (via the private sector) responsibility for new housing development within their boundaries;
- Securing necessary land for housing development within municipal land-use plans;
- Coordination of and participation in infrastructure development;
- Encouragement of private sector development projects;
- Coordination of and participation in social housing development;
- Encouragement and participation in maintenance and upgrading of the existing housing stock;
- Improvement of management and administration of local housing resources;
- Implementation of national technical programmes;
- Information and assistance to the private sector;
- Financing of new construction through a municipal housing development fund financed by revenues from the sale of municipal housing.

The private sector has responsibility for the financing, planning, construction and sale of new housing development.

Individual households are expected to take responsibility for:

- Financing and purchasing of new flats (private ownership);
- Financing maintenance and renewal (private owners and cooperative members);
- Administrating, managing and maintaining buildings (condominium owners/cooperative members).

This distribution of responsibilities contained in the Government's "Conception of the State Housing Policy by 2000" can, however, be implemented only to a limited extent within the existing, overall framework conditions for the Slovak housing sector.

B. National public sector institutions

An overview of the main public sector institutions responsible for housing in Slovakia is shown in figure XII.

The National Council, consisting of 150 representatives elected for a four-year period, is the supreme legislative authority within Slovakia. The Council has so far not established a permanent committee or subcommittee with direct or indirect responsibility for housing and housing-related matters. It is, however, a national policy objective to establish such a committee.

Government institutions

At ministerial level, responsibility for housing falls within the authority of *five separate ministries*:

- Ministry for Construction and Public Works (main responsibility for housing policy and management of the housing stock);
- Ministry of Environment (spatial and urban planning, the Building Code, environmental improvement of municipal infrastructure);
- Ministry of the Economy (State programmes on energy, subsidies to producers of heating and hot water);
- Ministry of Finance (State budget, rent control, taxation, financial policy instruments);
- Ministry of Labour, Family and Social Affairs (the planned housing allowance system).

The responsibility for central elements necessary to formulate and implement a national housing policy is thus spread among a high number of ministries.

The Ministry of Environment has a responsibility for the Acts on Spatial Planning and on Building Regulations, both of which provide important framework conditions for the housing sector.

The Ministry for Construction and Public Works as the government body with the main responsibility for housing has established a *housing sector division containing two departments*:

- The Department of Housing Policy:
 - Housing Policy Unit (5 employees);
 - Housing Fund Management Unit (5 employees);
- The Department of Economy and Housing Development:
 - Unit for Housing Development (5 employees);
 - Unit for Economic Instruments (5 employees).

The limited number of personnel working permanently on housing issues within this Ministry reflects both the existing decentralized structure of State institutions, and the expressed transfer of responsibility for housing from the State level to municipalities and the private sector.

Decentralized governmental institutions

Government institutions are decentralized to the regional (8) and district level (79). Responsibility for coordination of State activity at these levels lies with the Ministry of the Interior.

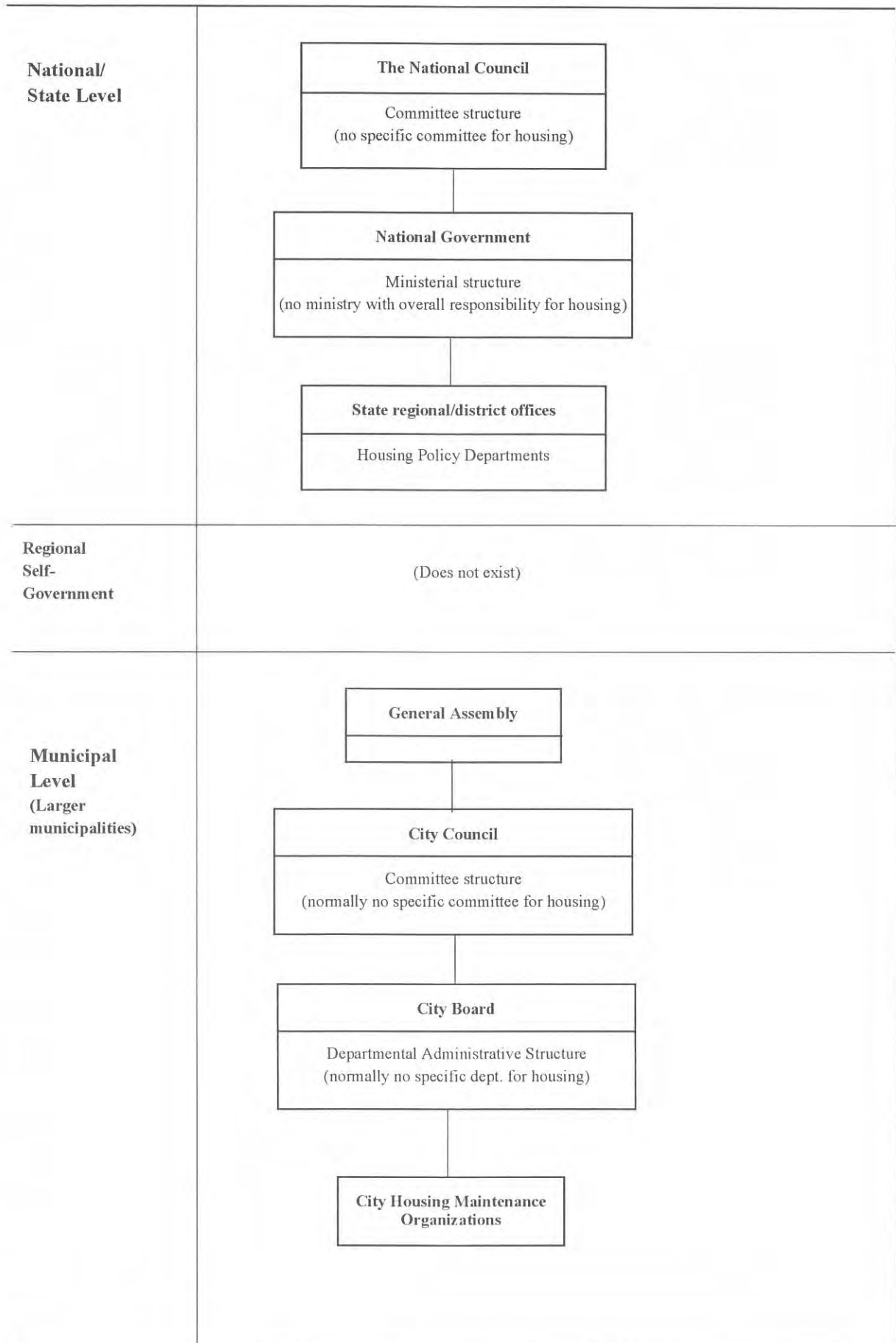
The State Regional and District Offices (Okres) contain *Housing Policy Departments*, whose main responsibilities are to:

- Cooperate with municipalities on the implementation of State housing policy;
- Coordinate and monitor municipal activity to:
 - Implement municipal housing policy;
 - Provide land for new housing development;
 - Provide infrastructure and municipal housing construction;
- Administer the State Housing Development Fund:
 - Provide information to municipalities and developers;
 - Accept, verify and certify applications for financing from the Fund;
 - Assist developers in preparatory work and construction;
 - Inspect and approve execution of contractual terms;
 - Control the overall efficient application of State resources.

The regional and district State administrations exert strong influence on municipal activity. In particular, this is the case for the small and medium-sized municipalities with very limited professional capacity within their administrative systems. Although the Offices are primarily concerned with matters outside the normal activity of municipalities, they are nevertheless empowered to set policy agendas for them.

Regional self-government institutions have not been established in Slovakia. There is, however, an ongoing discussion on this aspect of local government.

FIGURE XII
Slovakia: the housing sector—a simplified overview of public sector institutional structures



C. Local government institutions

The Constitution defines the municipality as "... an independent territorial and administrative unit ... (which) ... shall finance its needs primarily with its own funds and also with national subsidies. Taxes and duties to be raised by the municipality shall be determined by law ...". Local self-government is regulated by the *Act on Municipal Community Structure* from 1990. The Act defines municipalities as independent, self-governing territorial units serving citizens with permanent residence within their territory. Municipalities are governed by Councils whose members are appointed through municipal elections.

The present methods for funding municipal budgets, however, severely restrict municipalities' independence and their possibility for strategic planning. Approximately 90 per cent of municipal budgets are financed with direct State grants and subsidies. The only taxation income remaining totally with the municipality is the real-estate tax. All other income from taxation is transferred to the State, which returns block grants and subsidies to the municipality based on allocation criteria which may change yearly.

The process of "municipalization", which started in 1993, involved the transfer to municipalities of State ownership of housing stock, vacant land, service properties, local enterprises operated by State institutions, and local infrastructure. Slovakia's municipalities have, theoretically, wide responsibilities and powers in housing matters. In practice, however, municipal possibilities for independent housing policies are severely limited. This is partly caused by the remaining centralization and direct State involvement, and partly by the lack of municipal policy tools and institutional structures to adequately address housing issues. Although municipalities have formal responsibility for social and housing issues, central housing policy issues such as rent regulation and privatization of the municipal housing stock are still the responsibility of the State. In addition, the present method of yearly State financing of municipal budgets severely weakens the independence of municipalities.

The large number of small municipalities (approximately 2,700 with fewer than 5,000 inhabitants) further complicates the distribution of responsibility for housing. Small municipalities do not generally have resources to establish a professional capacity for housing. The absence of regional self-government, combined with strong State regional and district organizations, means that there is a danger that the majority of municipalities will merely implement State housing policy.

The transfer of responsibility from the State to municipalities has not been paralleled by the *necessary political and administrative changes in the municipalities*. In general, neither the committee structure under the municipal council, nor the municipal administrative organization has been changed to reflect the new and important role of housing at local, self-government level.

In Slovak municipalities the main responsibilities for administration, operation and repair of the municipal housing stock lie with the **municipal housing maintenance organizations**. These remaining elements of a public-sector-dominated housing service still operate as virtual monopolies. However, there are also some private

housing maintenance organizations for privately owned dwellings.

The institutional structure of Bratislava

Slovakia regulates the self-government of the two cities with a population of over 200,000 by special laws. The *Act on Bratislava* (1990), together with the *Covenant of Bratislava*, regulate the special status, spatial arrangements, and structure of the Slovak capital. The Act places a clear mutual obligation on the State institutions and the municipality to discuss all strategies for social and economic development deemed important for the needs and interests of the capital. In accordance with the Act, Bratislava is governed by a two-tier political/administrative system.

The upper tier: the municipal government (the magistrate) is responsible for the overall development of the capital under the control and subject to the approval of:

- The *General Assembly* (80 elected members); and
- The *City Council* (28 elected members appointed by the General Assembly);
- *Nineteen Committees*, chaired by Councillors elected by the General Assembly, responsible for issuing recommendations to the City Board, the City Council and the General Assembly.

The *City Board*, consisting of the Mayor and four Deputy Mayors, is appointed by the General Assembly and has responsibility for the operation of city activities.

The main responsibilities of the city are:

- Approving the master plan (spatial development) of the capital;
- Approving city-wide sectoral policies (e.g. housing);
- Approving and controlling the city budget.

The lower tier: 17 districts within the city with considerable autonomy and distinct responsibilities. Each district is governed by a *District Board* with full responsibility for the operation of all district activities. The District Boards have authority to propose policies and resolutions to the City Board for approval, and can present recommendations to the City Council and General Assembly. The main responsibilities of the districts are:

- Managing property and financial resources transferred from the city;
- Managing their own property and resources, e.g. selling municipal flats;
- Discussing and making city-wide and district-limited land-use proposals for residential purposes;
- Approving land-use plans for all or part of the district;
- Approving development plans for the district.

There is a clear potential for conflict between the city and its districts. In an attempt to limit such conflicts, a

Generally Binding Ordinance has been approved. It sets out procedures for resolving such conflicts. This ordinance can only partly remove the causes and effects of conflicts. The lack of institutional structures to tackle the new challenges and opportunities presented by housing is reflected in the fact that housing is a part-responsibility of the City Department of Social Affairs, and that the Department of Maintenance is responsible for leases for municipally owned housing.

D. The private sector

The private sector is a critical element in a market-based housing system. Early in the reform process Slovakia defined a new distribution of responsibilities within the housing sector as a strategic element in the transition from a centrally planned to a market-based system. The private sector has been defined as the real producer of housing "products" and services within this national strategy. Private sector participants in housing, and their efficient institutional structures and networks, must in the main be created by the private sector itself. It is, however, of crucial importance to the emergence of such private institutions and networks that the State and the municipalities should provide the necessary framework conditions, and actively encourage private sector participation and growth. Figure XIII presents a simplified overview of the main institutions involved in housing in Slovakia.

I. NATIONAL NON-GOVERNMENTAL INSTITUTIONS

Nationwide non-governmental institutions with direct or indirect interests in housing are gradually emerging. The new structures are mainly concentrated at the com-

mercial supply side of products and services. More slowly the consumer side of the housing market is also establishing organizations and interest groups.

Employers organizations in the construction industry

The Federation of Employers Unions and Associations of the Slovak Republic is the national umbrella organization of employers. The Federation has participated actively in public and political discussion on problems and solutions in the housing sector, and must be considered a strong participant in the further development of the housing sector.

The Association of Construction Entrepreneurs of the Slovak Republic represents three-quarters of employers in the national construction industry. The majority of former State construction companies with long experience in the construction of multi-family housing belongs to it. The Association is considered to have considerable influence on Government housing policy.

The Association of Private Construction Contractors of Slovakia brings together the remaining quarter of employers in the national construction industry. This Association, which now concentrates on developing public-private partnerships in housing development, has contributed a number of position papers and documents on problems in and solutions for the housing sector.

The Union of Building Development in the Residential Sector is a newly established organization with mixed membership (individuals, municipalities, consultants, contractors). Its main activity is to support developers in public-private housing partnership projects.

FIGURE XIII
Slovakia: main private sector institutional structures
in the housing sector

<i>Employers and producers organizations</i>	<i>Professional organizations</i>	<i>Consumers organizations</i>	<i>Financial institutions</i>
* The Federation of Employers Union and Associations	* The Society of Slovak Architects	* The Union of Home-owners Associations	* The National Bank of Slovakia * 24 national banks
* The Association of Construction Entrepreneurs	* The Chamber of Slovak Architects	* The Slovak Union of Housing Cooperatives	* 5 branches of foreign banks
* The Association of Private Construction Contractors	* The Chamber of Civil Engineers	* 175 individual housing cooperatives	* 12 representative offices of foreign banks
* The Union of Building Development in the Residential Sector	* The National Association of Real Estate Agencies		* 2 specialized Building and Saving Banks
* 33,500 construction and building companies (1996)	* Increasing number of private professional and services companies		

Consultancy and services

The *Society of Slovak Architects*, the *Chamber of Slovak Architects* and the *Chamber of Civil Engineers* are national professional organizations.

The *National Association of Real Estate Agencies of the Slovak Republic* is a relatively new organization representing the national real-estate industry. Its main focus is the creation of a housing market and the development of a national standard for the valuation of real estate.

An increasing number of private professional companies offer various services within the housing sector, such as: research and planning, expertise on energy conservation, management of property.

Owners and tenants organizations

The *Union of Homeowners Associations of the Slovak Republic* represents the condominium associations that are emerging as a consequence of the privatization of housing. Although the Union today concentrates on the problems of administration and maintenance of multi-family, private housing, it could develop into a strong representation of private ownership interests. The Union also has the potential to become a central partner for the public sector in maintaining the standard of the existing housing stock and reducing energy consumption in housing.

The *Slovak Union of Housing Cooperatives* represents approximately 370,000 flats with 1.2 million residents.

There are no national organizations to represent *tenant interests* in the Slovak housing sector. The creation of such organizations would probably require very active encouragement and assistance both from the State and from municipalities. *A central element in west European housing is the existence of various forms of non-profit housing organizations.* Such organizations, which exist within both the private and the public sectors, are normally owners of rental housing, often concentrating activity on specific social groups such as young people, the elderly, low-income households. There are no such non-profit housing organizations operating in Slovakia at present.

2. THE COOPERATIVE HOUSING SECTOR

The system of cooperative housing has a long tradition in Slovakia, with the first housing cooperative societies established in 1918. This form of ownership gained particular importance during the communist period. The Slovak Union of Housing Cooperatives was established in 1968 as an umbrella organization for the housing cooperative movement. Due to the strong position of housing cooperatives in general, and the Union in particular, during the communist period, both lost credibility and political priority at the start of the transition period. Today 130 individual housing cooperative societies belong to the Union, which is about 75 per cent of all housing cooperatives in Slovakia. The Union is one of about 30 bodies in Slovakia entitled to submit comments and proposals on laws affecting their field of interest.

The Slovak Union of Housing Cooperatives is today a democratic organization. Its *Assembly of Delegates of the Member Cooperatives* elects a *Board* and a *Control Commission*. The Assembly and the Board together establish supplementary commissions for time-limited periods. At present three such *Commissions* cover legal, energy and economic matters. The Union provides specialized advice and training schemes for its members. All activities are internally funded, and membership is totally voluntary.

The average size of individual housing cooperatives in Slovakia is 2,400 housing units. Although covering a wide variation in size, the larger end of this scale presents obvious problems with regard to identification and participation of ordinary members, and therefore with regard to active, democratic development of the cooperative housing movement. Each housing cooperative forms an independent, self-governing unit. Self-government exists on two levels:

- The entire housing cooperative (full independence);
- One or more buildings within the housing cooperative (limited independence).

Each self-government building or group of buildings elects representative(s) to the cooperatives' *Assembly of Delegates*. The voting rules are set out in by-laws, e.g. one delegate per 10 members/flats. The Assembly of Delegates elects the *Supervisory Council* and the *Board* of the cooperative. The Board elects its own *Chairman* (president/deputy director). The Chairman is normally a full-time employee and has responsibility for hiring all headquarter staff, and for all day-to-day management of the cooperative.

There are two forms of membership of housing cooperatives:

- Owner-occupier members;
- Tenant members.

Owner-occupiers have paid the full construction cost (or market sales price) of the flat. It is not obligatory for owner-occupiers to be members of the cooperative. If they choose not to be members, they have to sign a management agreement for the flat with the cooperative. Owner-occupier status is rare in cooperatives established before 1989. Such status can be obtained if tenants in cooperatives want it. *Tenants* have no ownership rights, only "right-to-occupy" based on the payment of an initial fee, and monthly rent covering the remaining capital costs and operating expenses. It is compulsory for tenants to be members of the cooperative.

3. THE CONSTRUCTION INDUSTRY³⁴

The Slovak construction industry has gone through massive restructuring since 1990. In 1980 the country had a total of 88 construction companies employing approximately 200,000 people. The number of companies had risen to 10,200 by 1990 and to 34,500 by 1994. It declined slightly to 33,500 in 1996. This period of rapid growth in the number of construction firms also experienced a decline in the total number of employees in construction

³⁴ The information for this section was provided by the Association of Private Construction Contractors of Slovakia.

from approximately 200,000 in 1980 to 180,000 in 1990 and 150,000 in 1996.

This dramatic change in the number of construction companies of course reflects a total move away from large, State-owned construction entities to small and medium-sized private construction and building enterprises. In 1980, 85 per cent of the total number of construction employees worked for the 40 companies employing more than 1,000 employees. In 1996, 50 per cent worked for companies employing fewer than 50 people, whilst only 12 per cent worked for companies employing more than 1,000 people.

This creation of a large amount of small, private construction and building businesses over a very short time also creates specific problems and challenges with regard to the possible rate of increase in new construction or renovation. A suspected weak capital basis and limited access to modern construction equipment can severely limit the ability of a large number of new, small companies to accept commercial risk and increase their production capacity. The construction industry has been largely

privatized. The interests of the private sector are represented by the newly established national associations.

4. FINANCIAL INSTITUTIONS

Based on Amendment No. 58/1996 to the Banking Act of 1992, the National Bank of Slovakia, as regulatory body, has pursued a policy of attracting investors to the existing banking structure. At the end of 1996, there were 24 national banks, 5 branches of foreign banks, and 12 representative offices of foreign banks operating in Slovakia. Of the 24 national banks, 20 are joint-stock companies and 2 are registered as State financial institutions. Foreign capital participation in the equity of the 24 national banks is substantial. Five banks are 100 per cent owned by foreign entities, nine banks have more than 10 per cent foreign equity participation, and in three banks foreign participation is less than 10 per cent of equity capital. Two specialized building savings banks are operating in an increasingly active financing system based on the German/Austrian system of *Bausparkasse*.

ANNEX

REFERENCES

- Institute of Slovak and World Economics:** Economic development of Slovakia in 1997. Slovak Academy of Sciences, Bratislava, March 1998.
- Metropolitan Research Institute:** Regional housing indicators database in the transitional countries of Central and Eastern Europe. Indicators programme, monitoring human settlements. Budapest, 1996.
- Prva Stavebni Sporitelna.** Housing database. Bratislava, 1998.
- Slovakia.** Environment Agency. National report on human settlement and housing development in the Slovak Republic (HABITAT II). Ministry of Environment, 1996.
- Ministry for Construction and Public Works. Conception of the State housing policy by the year 2000. Bratislava, 1995.
- Statistical Office. Census of population and housing. Bratislava, 1991.
- Statistical Yearbook 1997. Bratislava, 1997.
- Tsenkova, S.** Private housebuilding in transition economies. Ph.D. thesis. University of Toronto, Toronto, 1998.
- United Nations Centre for Human Settlements and the World Bank.** The housing indicators programme. Vol. II: indicator tables. Washington, D.C., April 1993.
- United Nations Development Programme.** Slovakia human development report 1996.
- United Nations Economic Commission for Europe.** Annual bulletin of housing and building statistics for Europe and North America. Vol. XXXVII, 1995. 209 p.
Sales No. E/F/R.94.II.E.15.
- Annual bulletin of housing and building statistics for Europe and North America. Vol. XXXVIII, 1996.
Sales No. E/F/R.97.II.E.3.
- Annual bulletin of housing and building statistics for Europe and North America. Vol. XXXIX, 1998. 89 p.
Sales No. E/F/R.98.II.E.17.
- Economic survey of Europe. 1998. No. 1.
Sales No. E.98.II.E.1.
- Human settlements trends in central and eastern Europe. 1997. 70 p. (ECE/HBP/105)
Sales No. E.97.II.E.11.
- Implementation of human settlements policies on urban renewal and housing modernization. Case study Bratislava. Forthcoming.
- United States.** Agency for International Development. Housing allowance design. An evaluation for Slovakia. Washington, D. C., 1996.

كيفية الحصول على منشورات الأمم المتحدة

يمكن الحصول على منشورات الأمم المتحدة من المكتبات ودور التوزيع في جميع أنحاء العالم. استعلم عنها من المكتبة التي تتعامل معها أو اكتب إلى: الأمم المتحدة، قسم البيع في نيويورك أو في جنيف.

如何购取联合国出版物

联合国出版物在全世界各地的书店和经营处均有发售。请向书店询问或写信到纽约或日内瓦的联合国销售组。

HOW TO OBTAIN UNITED NATIONS PUBLICATIONS

United Nations publications may be obtained from bookstores and distributors throughout the world. Consult your bookstore or write to: United Nations, Sales Section, New York or Geneva.

COMMENT SE PROCURER LES PUBLICATIONS DES NATIONS UNIES

Les publications des Nations Unies sont en vente dans les librairies et les agences dépositaires du monde entier. Informez-vous auprès de votre libraire ou adressez-vous à : Nations Unies, Section des ventes, New York ou Genève.

КАК ПОЛУЧИТЬ ИЗДАНИЯ ОРГАНИЗАЦИИ ОБЪЕДИНЕННЫХ НАЦИЙ

Издания Организации Объединенных Наций можно купить в книжных магазинах и агентствах во всех районах мира. Наводите справки об изданиях в вашем книжном магазине или пишите по адресу: Организация Объединенных Наций, Секция по продаже изданий, Нью-Йорк или Женева.

COMO CONSEGUIR PUBLICACIONES DE LAS NACIONES UNIDAS

Las publicaciones de las Naciones Unidas están en venta en librerías y casas distribuidoras en todas partes del mundo. Consulte a su librero o diríjase a: Naciones Unidas, Sección de Ventas, Nueva York o Ginebra.
