

### 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,<sup>15</sup> 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-

<sup>15</sup> 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.<sup>16</sup>

**Household expenditure on housing** in all tenure types was less than 6.9 per cent of monthly income in 1997.<sup>17</sup> 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 <sup>18</sup> .....	825	857	845	1 070
Water + sewerage .....	112	107	109	48
Municipal utilities .....	87	101	99	28
Real-estate tax .....	-	-	-	44
<b>Total housing costs</b>	<b>1 423</b>	<b>1 484</b>	<b>1 399</b>	<b>1 553</b>

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

<sup>16</sup> Those trends were explored in more detail in chapter II.

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

<sup>18</sup> 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
<b>Subtotal</b>	<b>4 315</b>	<b>6 195</b>	<b>5 908</b>	<b>4 106</b>

*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
<b>Total</b>	<b>3 496</b>

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.....	-	-	-	-
<b>Total</b>	<b>2 770</b>	<b>690</b>	<b>15</b>	<b>3 473</b>

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 m<sup>2</sup> for a flat, 150 m<sup>2</sup> 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*<sup>19</sup>

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.<sup>20</sup> 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

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

<sup>20</sup> 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*<sup>21</sup>

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.

<sup>21</sup> 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 m<sup>2</sup> 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
<b>Total</b>			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.<sup>22</sup> 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-

<sup>22</sup> 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.<sup>23</sup>

**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
<b>Total</b>	<b>7 348 334</b>	<b>2 650</b>

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
<b>Total</b>	<b>7 281 235</b>	<b>2 626</b>

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

<sup>23</sup> 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 m<sup>2</sup>) 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 m<sup>2</sup>. 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).