

## CHAPTER 4. HOUSING FINANCE IN SLOVAK REPUBLIC

*by*  
Dana Rigaszova\*

### 1. Macroeconomic Environment

The Gross Domestic Product development continued to gradually accelerate with the Slovak economy's efficiency, albeit with minimal modifications on its supply side. The basic branch structure of the Gross Domestic Product formation has not substantially changed in comparison with the previous year, although a long-term development tendency of market services strengthening at the expense of industry has remained on the same level. On the side of use the acceleration of economic growth was a result of an increased domestic demand.

A positive factor of the Slovak economic development in 2003 was the employment growth mainly influenced by market services. The situation on the labour market was complicated by a relatively high population growth at the productive age – it did not result in the unemployment decrease although there were more job opportunities in comparison with the previous year. The nominal wages growth dynamism accelerated in 2003 which - while the inflation was declining - reflected in a repeated growth of real wages after two years.

Gross Domestic Product in current prices in first half of 2004 was 636.6 mld. Sk, in fixed prices year 1995 399.4 mld. Skk, index / fixed prices year 1995 –105.4%.

### 2. Tasks of the State defined by the State Housing Policy Concept and Their Implementation

As a result of social conditions in 1989 there were substantial changes in the area of the housing policy. There was actually a total attenuation in the housing construction as a consequence of the fact that the state stopped supporting the housing construction financing. To stop this unfavourable development the Government of the Slovak Republic adopted in 2000 the „Concept of the state housing policy till 2005 with a perspective to 2010“. These concepts determine the position of the citizen, municipalities and state in the area of housing provision. Within the market economy the responsibility for the provision of own housing is delegated to the citizen. The state and municipalities are to create suitable conditions for housing provision for citizens.

The provision of the territorial and planning preparation, provision of availability of building plots for housing construction, coordination and participation in housing development and connected technical infrastructure as well as the provision of housing conditions for socially dependent population groups also belong to the tasks of municipalities.

The task of the state is in particular to regulate economic tools to support the housing development and to gradually regulate the particular law in order to eliminate the existing development barriers,

\* Senior housing finance economist , Section of Financial Market, Ministry of Finance of the Slovak Republic

unsystematically acting regulations and to continuously bring the legislation into compliance with the EU law.

The system of economic tools for the support of the housing development anchored in the legislation is being gradually created. These tools helped to revive the housing construction but so far the requirements of the population in the area of housing construction have not been met. After the initial start in 1996 - 1998 there was an attenuation of the housing construction in 1999 and 2000 as a result of a lack of available funds and the economic situation in the Slovak Republic as well. This decline then reflected with a shift of two years in the decrease of finished flats in 2001. The available data confirm that since 2001 the dynamism of flats being started and finished has repeatedly increased.

In the first half of 2004, 9,077 flats were started and 5,415 flats finished. As part of this are private houses started 5 025 and finished 3 646. 43 649 flats were in building. With comparison to the same time of last year the number of started flats is higher about 51.9 %, finished about 14.7% and in build procedure about 7.1 %.

At time of the census of population, houses and flats to 26 May 2001 the Slovak Republic had 5,379,455 inhabitants and 1,665,536 permanently inhabited flats. This means that according to the census there were 309.6 permanently inhabited flats per 1,000 inhabitants in the Slovak Republic.

According to the census of population, houses and flats to 26 May 2001 the average total flat area was 83.9 m<sup>2</sup> and the average residential flat area 56.1 m<sup>2</sup>. The average total flat area per 1 inhabitant was 26 m<sup>2</sup> and the average residential flat area 17.5 m<sup>2</sup>. In 2001 within the finished flats the average floor flat area reached approximately 142 m<sup>2</sup> and the average residential flat area ca 86.2 m<sup>2</sup>. This development is a result of a high share of flats being started in houses.

Flat provisions per 1,000 inhabitants in the Slovak Republic are comparable with the level in the transition countries but they are significantly behind the developed countries of the Western Europe where this indicator in 2001 was 2.59 inhabitants per 1 flat.

At present it is possible to assume that in the Slovak Republic there is a lack of 255,000 flats and thus legislative and economic conditions need to be established in order to gradually extend the scope of flats being finished and to finish 5 to 6 flats per 1,000 inhabitants in the Slovak Republic in the horizon about 2010.

### **3. Privatization in the Housing Sector and Ownership Relations**

According to the census of population, houses and flats in 2001, of the total number of the permanently inhabited flats there were 820,042 flats in houses (49.2 %) and 845,494 flats in blocks of flats (50.8 %). The housing cooperatives possessed 247,977 flats (29.3 %) and citizens possessed 442,387 (52.3 %) of the total number of flats in blocks of flats (apartment houses) and the remaining part was represented in particular by municipal and state flats.

### **4. Social Housing Policy**

The social housing policy is reflected in the following two areas:

- State support in the housing stock use,
- State support in the housing construction development.

Within the first area the Act on housing bonus was adopted which at present still corresponds to the centralist approach of the state economy management and financing. For the following period in the connection to the public administration reform and decentralization of powers to the regional self-government authorities it will be necessary to amend the act to bring it in compliance with the system usually implemented with EU directives.

Within the area of state support in the housing construction development some support tools were adopted which are focused on all population groups regardless of their income. However, within the social housing policy there were only limited possibilities to get a flat for population groups with lower income, in particular for young families. The housing construction in this area is carried out only with the substantial participation of state subsidies. The actually stopped the construction of rental flats caused by a strict deregulation of rent represented a permanent economic loss for the owners of rental flat stock. This deformation was eliminated on 1 February 2001. For these reasons it was possible neither to develop the construction of special housing forms (in particular the first housing for young people, the so called start-up flats), housing for older citizens in custody service homes, nor the flats of a lower standard for citizens who do not pay rent and for inadaptable citizens.

To create more appropriate conditions for the housing construction support for citizens with low income further laws have been recently adopted creating a scope for the regulation of this area; it is in detail described in the next part of this material.

## **5. Housing Construction Financing**

Economic systems were gradually created and improved to finance the housing construction. Simultaneously with these systems the state supported the rental flats construction and flat technical infrastructure by its direct subsidies. As it follows from the previous part the state is gradually taking further measures which directly or indirectly support the housing construction.

From the point of view of the housing construction financing the state support can be divided into two areas:

1. A direct support area
2. An indirect support area.

### **5.1. Direct Support Area**

The direct support can be further divided into:

1. Housing construction financing systems
  - Housing savings
  - Mortgage loans
  - State Housing Development Fund (hereinafter referred to as „SHDF“)
2. Housing construction financing support programs
  - Subsidy programs

- Bank guarantees program

### 5.1.1. Housing Construction Financing Systems

#### *Housing savings*

The area of housing savings in the Slovak Republic is regulated by the Act on housing savings. The keystone of the housing savings is the collection of financial means in the housing savings fund by clients of housing savings banks and their usage for the needs of housing construction via housing loans. The housing savings in the Slovak Republic is a closed system independent of the development on the money and capital markets.

#### **Housing savings banks operating in the Slovak Republic**

Name	Operation since
Prvá stavebná sporiteľňa, a. s.	1992
VÚB Wüstenrot, a. s.	1993
ČSOB stavebná sporiteľňa, a. s.	2000

The housing savings fund consists of deposits of housing savings clients (hereinafter referred to as “housing saver”), interest on deposits, state budget contributions (hereinafter referred to as “government bonus”), repayments of credits already extended and other sources.

The housing savings may be carried out only by a bank established as a joint stock company which was given a license to operate as a bank and if the operation of this bank lies in housing savings (hereinafter referred to as “housing savings bank”). Beside the main operation, which consists of accepting the deposits from housing savers and extending housing loans to its clients, a housing savings bank may provide guarantees to another bank for housing loans, mortgage credits or municipal credits, it may accept deposits from banks, make deals for own account with mortgage bonds, municipal bonds, government bonds including government treasury bills or treasury bills of the National Bank of Slovakia, and provide consulting services connected with housing savings. Interest is paid on deposits of housing savers.

According to legal regulations in effect a housing saver may be a natural person (individual) with a permanent residence within the territory of the Slovak Republic who concludes a housing savings contract with a housing savings bank or in favour of whom a housing savings contract is concluded, a legal person (corporate body) with a place of business within the territory of the Slovak Republic or a natural person – entrepreneur with a permanent residence within the territory of the Slovak Republic who concludes a housing savings contract with a housing savings bank.

The housing savings starts by concluding a contract between a housing saver and housing savings bank on a contractually agreed target amount. This amount consists of deposits from a housing saver, interest, government bonus, housing loan and other sources. After meeting the contractually agreed conditions a housing saver is entitled to get a housing loan. A housing saver may set up a claim for a housing loan, withdraw his deposit and use it without a claim for a housing loan or keep on saving.

A housing saver gets a housing loan if he/she meets the contractually agreed conditions and terms of housing savings (amount of saved sum, saving period) and if he/she meets the conditions of economic return of the housing loan. The amount of a housing loan is equal to the difference between a target amount and saver’s deposits, including interest, government bonuses and other sources.

The government bonus as a support of state in this area makes 15 % of the annual deposit of a housing saver but not more than an amount determined by the Act on state budget for the particular budget year. For this year the Act on state budget determines the maximum amount of the government bonus per 1 housing saver to the amount of 83,-USD. The provision of the government bonus to a housing loan and housing policy has the intention to establish conditions for collecting available long-term financial means of population from which long-term credits with lower interest rates could be granted. The amount of the government bonus in the Czech Republic and Croatia is 25 %, in Germany 10 % and in Austria 4.5 %. However, in the late 60's the government bonus in these two countries was yet higher than 30 %.

The government bonus is yearly provided to a housing-saver – natural person only upon one housing savings contract during the period of savings. In the case, when a housing-saver has concluded more housing savings contracts, the government bonus may be provided only upon one of them.

A housing-saver may use the target amount, if a part of it also consists of a granted housing loan, for financing housing needs in the Slovak Republic. A concrete possibility of disposal of funds acquired from housing savings is the acquisition of the ownership of a flat, house or block of flats (apartment block), the construction, extension, superstructure, in-building or modification of a house or block of flats or modification of a flat, modernisation and maintenance of a flat, block of flats or house, acquisition of the ownership of a building plot for the purposes of the construction of a house or block of flats, acquisition of the ownership of a plot on which a house or block of flats is already located, acquisition of the ownership of non-dwelling spaces in a block of flats for the purpose of the conversion of non-dwelling spaces into a flat, conversion of non-dwelling spaces into a flat, the payment of the share to a housing co-operative for the purpose of acquisition of a flat, and payment of the commitments (liabilities) related to the above mentioned purposes.

As the consequence of an increase of the state budget deficit, the Slovak Republic is currently forced to implement measures to stabilize the budget income and expenditure. Such changes are likely not to avoid also the field of housing savings where the Ministry of Finance of the Slovak Republic has prepared a draft amendment on housing savings in order to change procedures of providing the government bonus with calculation through the special formula. The above-mentioned draft has been approved by the government and submitted to the National Council of the Slovak Republic with proposed effect on January 1, 2004...

In advanced economies (Germany, Austria, France, U.S.A) with long-term experience of the housing savings the impact of this system on the overall economy is rated and may be summarised as follows: Additional savings reduce the consumption what has the beneficial effect on prices (inflation rate); continuous cumulation of long-term savings and linked granting of housing loans has the strong stabilisation impact on the economy as a whole (*en bloc*); the state supports the transformation of the short-term savings to the long-term savings and investments through the government bonus; the housing savings system creates the housing demand relatively independently from the development of the market interest rates and cyclical motions; housing loans have the beneficial effect on the construction industry and related industries of the economy; the private housing construction creates a relatively large number of jobs compared to other industries of economy; the housing construction sector employs all goods (commodities) dedicated for housing what favourably impacts on the economic growth.

### *Mortgage loans*

In the Slovak Republic, the mortgage banking is provided by the Act number 483/2001 Collection of laws on Banks. Commercial banks with a licence to transact mortgage business may grant mortgage loans (to issue mortgage backed bonds) and may grant municipal loans (issue municipal bonds).

**Banks with the licence to transact mortgage business**

BANKS	DATE OF GRANTING THE NCE	DATE OF THE START OF ACTIVITIES
Všeobecná úverová banka	Jun1997	October 1997
DEXIA bank	December 2002	November 2003
Slovenská sporiteľňa	December 1997	July 1999
Istrobanka	November 1998	3 <sup>rd</sup> quarter of 1999
Tatrabanka	January 2000	October 2000
HVB bank	October 2000	merger with HypoVer.
ČSOB	November 2001	April 2002
Unibanka	May 2002	July 2002
OTP Banka	August 2002	January 2003
Ľudová banka	October 2002	January 2003

The mortgage loan is a loan with maturity of at least four years and maximum thirty years, secured by the right of lien established upon domestic real estate. The mortgage loan may be used for the acquisition of domestic real estate or its part, construction or modification of completed structures, maintenance of domestic real estate, or repayment of a granted loan (that is not a mortgage loan) used for the above-mentioned purposes.

The municipal loan is a loan with maturity of at least four years and maximum thirty years, secured by the right of lien established upon real estate owned by a municipality or real estate owned by a regional territorial unit (VÚC). Banks grant this kind of the loan for the acquisition of domestic real estate, construction, modification of completed structures, and maintenance of domestic real estate and other structures in order to use them for public service purposes.

In year of 2003 were average interest rates of mortgage banks in Slovakia from 7 to 9 % without the state contribution.

The National Bank of Slovakia appoints a mortgage controller to each mortgage bank, to supervise the conduct of mortgage transactions in the scope provided by the At on Banks and Act on Bonds.

The state aid in the field of the mortgage banking is implemented through the provision of a government bonus to a mortgagor who is a natural person. The government bonus is a percentage by which the rate of interest set in a mortgage loan contract is reduced by the Government. The percentage amount of the government bonus may not be changed over the entire maturity of the mortgage loan set in the mortgage loan contract. The percentage amount of the government bonus for contracts concluded in individual calendar years is laid down in the State Budget Act for the respective fiscal year. In 2002 the government bonus is set out for 4.5% (in 1999 – 2000 it was 6 %, in 2001 – 5 %, in 2002-4.5%, 2003-2.5%, 2004-1%). In 2005 government bonus is 0%.The government bonus is granted only upon one mortgage loan contract, from the amount of a mortgage loan not exceeding 2.5 mil. Skk per one housing unit.

The development of mortgage and municipal banking you can see in next table.

#### Development of mortgage business loans

Year	1999	2000	2001	2002	2003	2004
The amount of mortgage loan /in mil.SK /	570	1,446	3,903	9,250	18,938	15,000
Impact on state budget /amount of state contribution in mil.Sk /	80	100	127	226	490	775

#### *State Housing Development Fund*

The State Housing Development Fund was established by the law governing its position and conditions of granting the government aid in order to extend and enhance the housing stock. Subsidies from the State Housing Development Fund (hereinafter referred to as "SHDF") in the form of an advantageous long-term loan and non-recurring bonus are granted for the construction of a flat in a block of flats or house, if appropriate, construction of social service facilities, thermal protection of a block of flats or house, if appropriate, modification of a completed structure of a block of flats or house, remedy of static defects of a block of flats and for the purchase of a new structure of a flat.

#### Overview of SHDF expenditures granted for the extension and enhancement of the housing stock

MILL. USD								
Indicator	1996	1997	1998	1999	2000	2001	2002	2003
Subsidies for the extension and enhancement of the housing stock	8,0	39,0	82,1	38,3	79,3	85,7	287	374
of that: - loans	7,8	32,0	65,1	29,7	68,6	85,1	514	290,1
- non-recurring bonus	0,3	7,1	17,2	8,6	10,6	0,6	10	44,3

In 2003 the SHDF had concluded 3,967 contracts with private persons, and the subsidies in the total amount of 2,603 mill. Skk were granted, thereof 2,599 mill. Skk in the form of a loan and 3,826 mil. Skk in the form of non-recurring bonus. The provision of subsidies was mainly focused on the construction of flats, and it may be observed that the construction of new 3 903 flats, and re-new 64 flats was supported through the SHDF.

By January 1, 2004 is in effect new amendment of Act on SHDF.

#### *5.1.2. Supporting Programmes of Housing Construction Finance*

##### *Subvention Programmes of Housing Construction Finance*

In addition to the subsidies provided through systems of financing housing construction, the state aid connected to housing construction is manifested by the annual allocation of subsidies from the state budget and funds gained in the privatisation process for the provision of facilities construction, acquisition of rental flats for residents with low income and remedy of damages of block of flats built using the panel technology, which are not caused by the insufficient maintenance.

Therefore, effective from 1<sup>st</sup> January 2004, a new model has been implemented, which brings the financial sources of commercial banks in this field. Finance for the acquisition of rental flats under the public rental sector is currently supported by government subsidies allocated for the partial payment of acquisition costs of a flat and partial payment of the interest rate from a loan granted for the acquisition of a flat, by a loan from the commercial banks and investor's own sources.

#### Yearly state expenditure to housing

YEAR	2000	2001	2002	2003	2004
Funds of state budget in mil.Sk	6,283	7,333	7,667	6,904	7,120
% as share from yearly state budget	2.6	2.9	2.8	2.8	2.5

#### *Program of Bank Guarantees*

The program supporting the housing construction development, implemented in the form of the provision of bank guarantees for loans assigned to housing construction, which was approved by the SR Government in 1999, has laid down conditions for using private funds in the field of housing. The aid to legal persons in the form of liability for a loan assigned to the field of housing construction and remedy, modernisation and reconstruction of the housing stock may be granted through this programme. The priority under this programme is given to guarantees for loans assigned to rental housing construction for socially disadvantaged groups of inhabitants. The provision of such form of the state aid is implemented in accordance with the State Aid Act, which is compatible with EU directives.

No amount has been allocated from the state budget in order to implement this programme by Slovak guarantee and development bank this year.

#### **5.2. Field of Indirect Support**

The field of indirect government support within housing construction, which is formed by tax relief and tax incentives, lags far behind measures in the field of direct support, adopted under the concept of the government housing policy.

Within the fiscal policy, the partial measures regarding the tax exemption have been implemented:

- exemption from tax on real estate: flats, houses and block of flats for the period of 5 to 10 years (from 1<sup>st</sup> January 1993)
- exemption of housing cooperatives from the tax on income derived from rental of cooperative flats, garages and payments provided in the connection with their usage (from 1<sup>st</sup> January 1993)
- exemption from tax on income of individuals (natural persons): interests from deposits under housing savings (from 1<sup>st</sup> January 1994),
- exemption from tax on income: interest gains from mortgage backed bonds of natural and legal persons (from 1<sup>st</sup> April 1999)



- the first assignment of the flat ownership in a block of flats or house ownership in a family house from the constructor ownership to the natural person or legal person ownership is exempt from tax (from 1<sup>st</sup> April 2002).

These measures in the field of fiscal policy have not motivated investors to engage themselves in the housing construction development. For the housing construction development, there is necessary to develop the fiscal tools in order to stimulate investors for the field of housing construction.

## 6. Tendency in the Field of Housing Construction Finance

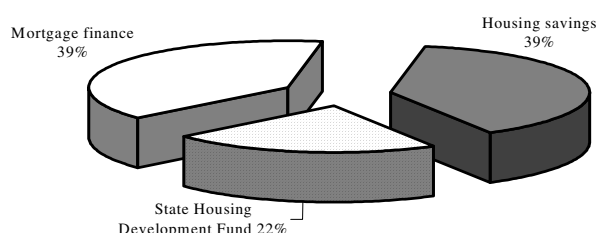
In 2001 the Government adopted “The Concept of Housing Development” on the basis of which it is necessary for the effective usage of financial sources to enhance individual systems so that they will not be implemented overall. It is necessary to determine their effects on individual groups of inhabitants depending on the level of their income.

The housing development support using the government economic tools is, in accordance with this Concept, focused on the target solution represented by financing the housing development, mainly from private sources; public finance of the state and municipalities are focused on the housing support of socially disadvantaged groups of inhabitants and on the indirect support in the form of tax relief.

All the systems of housing construction finance created during the previous years, including the investors’ own sources, must take part in the financing of housing construction till 2010. Bank sources are more significantly involved in the system, in the form of both the mortgage loans implemented through mortgage backed bonds and standard mortgage loans, and commercial bank loans.

From the participation of individual systems in housing construction finance, adopted under the Concept of Housing development, the proportion of these systems of housing construction finance should be considerably modified, and charts 1 and 2 represent its development.

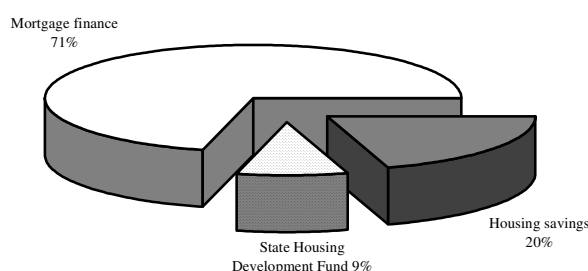
**Chart 1 - Proportion of three existing systems of housing construction finance in 2005**



**Chart 2 - Assumption for number of new build flats**

YEAR	2004	2005	2006	2007	2008	2009	2010	2015	2004-2015
Flats total	16,000	17,000	18,500	20,000	21,000	22,500	24,000	27,000	269,000

**Chart 3 - Proportion of three existing systems of housing construction finance in 2010**



**Chart 4 - Assumption for financial needs for construction of new flats**

YEAR	2004	2005	2006	2007	2008	2009	2010	2015
Total flats	34,967	39,753	46,289	53,545	60,158	68,967	78,714	124,200

## 7. Summary

In the near future, in the field of housing construction finance, the economic performance in the Slovak Republic requires from individual participants of this process to continue performing their intents. The field of indirect subsidies, mainly the field of taxation, must be developed in order to develop housing construction. It is necessary to adopt those taxation tools that would motivate investors to invest in housing construction and renovation of the existing housing stock.

Concerning the situation in the capital and financial markets of the Slovak Republic, the participation of foreign financial institutions in granting available sources for financing mainly the construction of flats in the public rental sector is desirable. This field is step-by-step implemented through the entry of foreign subjects into the banking sector of the Slovak Republic.

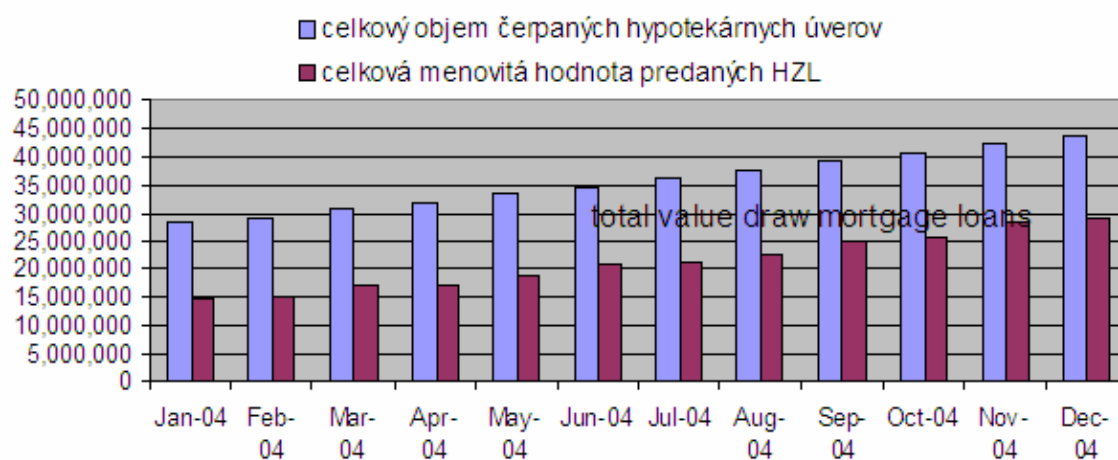
The Slovak Republic actively co-operates with international institutions in order to assure sources. In co-operation with the Council of Europe Development Bank the project of co-financing the construction of municipal rental flats for residents with low income is currently implemented from sources of municipalities and the Council of Europe Development Bank.

It is to be necessary to analyse in details the current amount of the Government subsidy and its efficiency in order to develop the field of housing construction finance and build an effective state aid in this field. Draft regulations laying down principal parameters concerning setting out the government bonus under housing savings and under mortgage loans consider a decrease in the Government subsidy in 2003 by reason of stabilisation of the budgetary field.

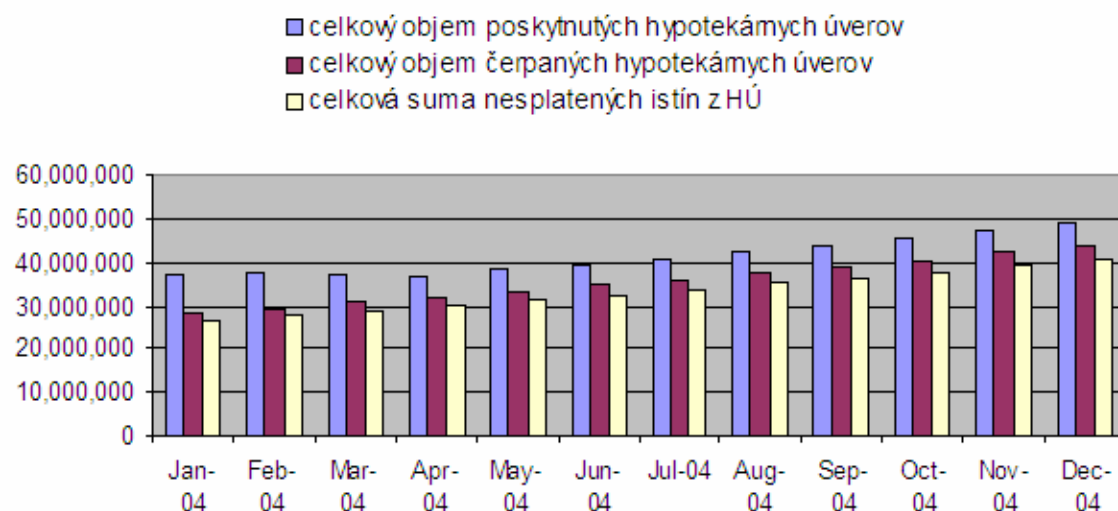
#### Developments of mortgage loans for banking sector of Slovak republic in 2004

<b>Mortgage loans in thousand of SKK</b>	<b>31.1.2004</b>	<b>29.2.2004</b>	<b>31.3.2004</b>	<b>30.4.2004</b>	<b>31.5.2004</b>	<b>30.6.2004</b>
Total volume of granted mortgage loans	37 147 757	37 732 000	37 184 771	37 054 752	38 250 786	39 559 508
<i>Number of closed contracts</i>	47 012	47 837	47 291	46 722	48 008	49 543
Total volume of draw mortgage loans	28 121 785	29 224 387	30 632 394	31 886 876	33 306 148	34 631 120
<i>Number of closed contracts</i>	38 561	40 000	41 571	42 991	44 157	45 605
Total amount unpaid principals from mortgage loans	26 628 435	27 622 285	28 894 295	30 019 779	31 262 240	32 509 203
Total nominal value issued mortgage bonds	14 742 910	15 142 910	17 585 210	17 585 210	19 084 210	21 085 210
<i>Number of issues of mortgage bonds</i>	26	26	29	29	30	33
Total nominal value of sold mortgage bonds	14 542 910	14 942 910	16 885 210	17 123 010	18 880 810	20 885 210
Ratio of total nominal value of sold mortgage bonds to total amount of unpaid principals from mortgage loans (v %)	54,61	54,10	58,44	57,04	60,39	64,24
<b>Mortgage loans in thousand of SKK</b>	<b>31.7.2004</b>	<b>31.8.2004</b>	<b>30.9.2004</b>	<b>31.10.2004</b>	<b>31.11.2004</b>	<b>31.12.2004</b>
Total volume of granted mortgage loans	41 055 214	42 515 331	43 910 704	45 516 982	47 175 760	48 814 563
<i>Number of closed contracts</i>	51 170	52 770	54 225	55 806	57 406	59 103
Total volume of draw mortgage loans	36 031 329	37 588 237	38 971 696	40 533 683	42 387 240	43 678 074
<i>Number of closed contracts</i>	47 207	48 902	50 517	52 173	53 727	55 350
Total amount unpaid principals from mortgage loans	33 741 981	35 183 321	36 453 114	37 877 697	39 354 465	40 757 284
Total nominal value issued mortgage bonds	21 585 210	22 585 210	25 085 210	25 892 310	28 642 310	30 142 310
<i>Number of issues of mortgage bonds</i>	34	36	39	40	42	44
Total nominal value of sold mortgage bonds	21 385 210	22 385 210	24 885 210	25 692 310	28 442 310	29 158 380
Ratio of total nominal value of sold mortgage bonds to total amount of unpaid principals from mortgage loans (v %)	63,38	63,62	68,27	67,83	72,27	71,54

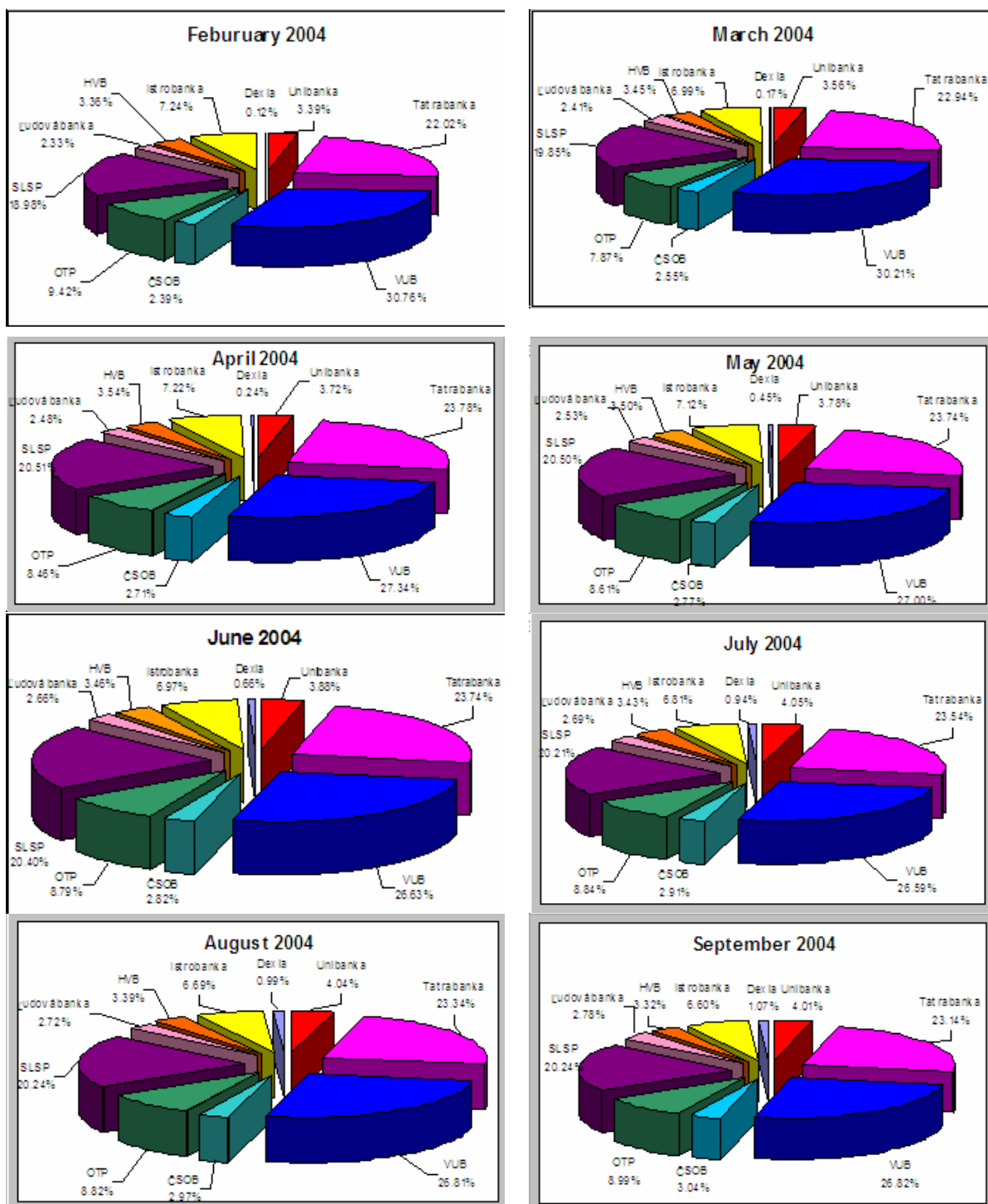
### Draw mortgage loans to sold mortgage bonds in 2004

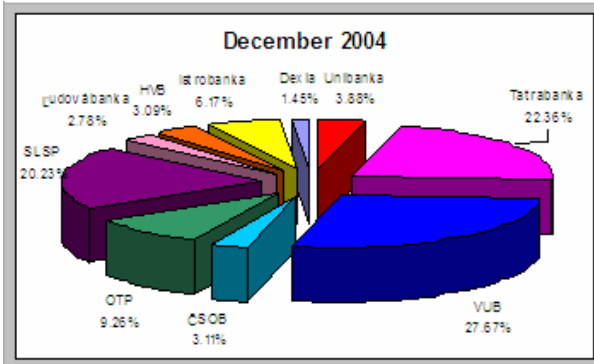
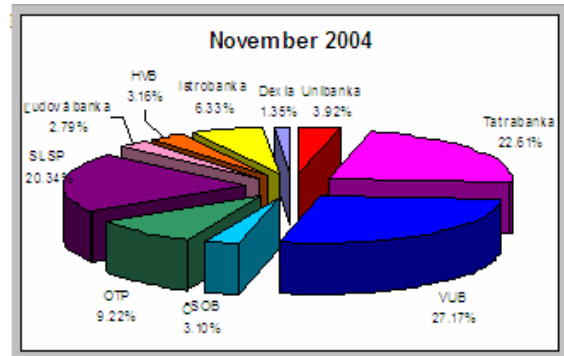
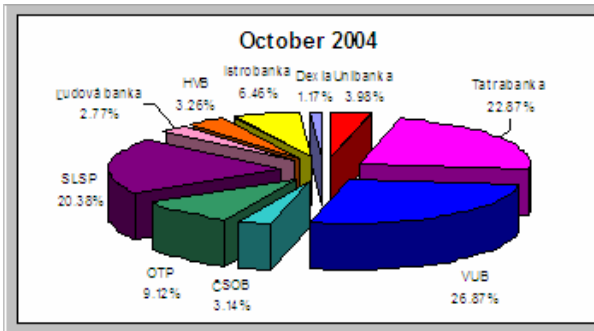


### Development of mortgage loans in 2004



### Ratio of mortgage banks to total volume of granted mortgage loans





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