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Enhancing the efficiency,  
inclusiveness,  
and environmental  
sustainability of housing  
in the Slovak Republic

**Federica De Pace**

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OECD Economics Department Working Papers

**Enhancing the efficiency, inclusiveness, and  
environmental sustainability of housing in  
the Slovak Republic**

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## Abstract

### **Enhancing the efficiency, inclusiveness, and environmental sustainability of housing in the Slovak Republic**

Housing affordability has deteriorated in the past decade. There is scope for eliminating barriers to expand housing supply by reforming land use policy and streamlining the administration of building permits. Measures can be taken to promote the expansion of the rental market and reform housing taxation to reduce the bias in favour of owner-occupied housing. Ensuring adequate supply and funding for construction and operation of social housing is crucial to improve living conditions for the most vulnerable. Accelerating the formalisation of property rights in Roma settlements would help to provide basic infrastructures for adequate access to water and sanitation. Implementing stricter regulation and targeted financial assistance to households most in need would help incentivise housing renovations, reduce energy poverty and advance environmental objectives.

JEL classification codes: R21, R31, R38, H20, H23, Q58

Keywords: housing affordability, rental market, building permits, housing taxation, social housing, housing conditions for Roma, environmentally sustainable housing, Slovak Republic

This Working Paper relates to the 2023 OECD Economic Survey of the Republic Slovak

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## Résumé

### **Améliorer l'efficacité, l'inclusivité et la durabilité environnementale du logement en République Slovaque**

L'accessibilité au logement s'est détériorée au cours de la dernière décennie. Il est possible d'éliminer les obstacles à l'expansion de l'offre de logements en réformant la politique d'occupation des sols et en rationalisant l'administration des permis de construire. Des mesures peuvent être prises pour promouvoir l'expansion du marché locatif et réformer la fiscalité du logement afin de réduire le biais en faveur des logements occupés par leur propriétaire. Garantir une offre et un financement adéquats pour la construction et le fonctionnement des logements sociaux est essentiel pour améliorer les conditions de vie des plus vulnérables. Accélérer la formalisation des droits de propriété dans les campements roms permettrait de fournir des infrastructures de base pour un accès adéquat à l'eau et à l'assainissement. La mise en œuvre d'une réglementation plus stricte et d'une aide financière ciblée sur les ménages les plus nécessiteux permettrait d'encourager la rénovation des logements, de réduire la pauvreté énergétique et de faire progresser les objectifs environnementaux.

Classification JEL : R21, R31, R38, H20, H23, Q58

Mots clés : accessibilité du logement, marché locatif, permis de construire, fiscalité du logement, logement social, conditions de logement pour les Roms, logement écologiquement durable, République slovaque

Ce document de travail a trait aux études économiques de l'OCDE de la République slovaque.

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# Enhancing the efficiency, inclusiveness, and environmental sustainability of housing in the Slovak Republic

Federica De Pace, OECD<sup>1</sup>

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Housing affordability has deteriorated in the past decade. There is scope for eliminating barriers to expand housing supply by reforming land use policy and streamlining the administration of building permits. Measures can be taken to promote the expansion of the rental market and reform housing taxation to reduce the bias in favour of owner-occupied housing. Ensuring adequate supply and funding for construction and operation of social housing is crucial to improve living conditions for the most vulnerable. Accelerating the formalisation of property rights in Roma settlements would help to provide basic infrastructures for adequate access to water and sanitation. Implementing stricter regulation and targeted financial assistance to households most in need would help incentivise housing renovations, reduce energy poverty and advance environmental objectives.

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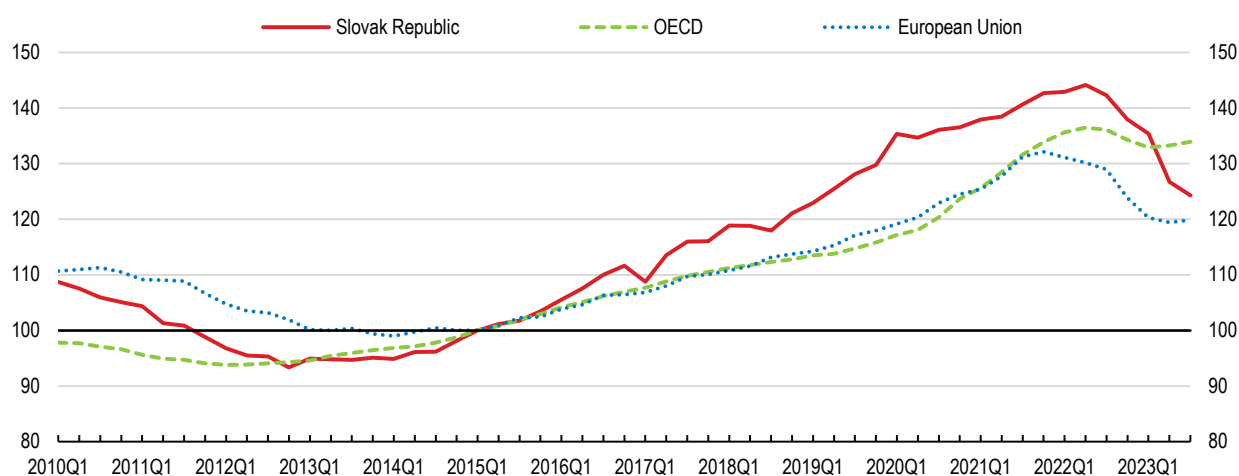
## Households struggle with housing affordability and quality

Housing plays a vital role in people's lives. It absorbs a large share of households' income. Its quality affects health and well-being. Its environmental performance raises issues of energy poverty and determines emissions of greenhouse gases and air pollution. Housing homeownership rates shape workers' mobility decisions, with consequences for the labour market, growth, and inequality. This chapter documents the main structural challenges facing the Slovak housing market and proposes solutions to boost its efficiency, promote affordability and inclusiveness, and accelerate environmental sustainability.

Housing affordability has become increasingly challenging in Slovakia. From 2015 to 2022, real house prices rose more quickly than on average in the OECD and the euro area (Figure 1). Over the same period, the price-to-income ratio increased substantially despite stable interest rates, making housing less affordable for many (Figure 2). The COVID-19 pandemic further exacerbated the affordability challenge. In an environment of low interest rates, the combination of strong housing demand, high household savings, and weak housing supply, led to a historically high real house price growth. The year-on-year average quarterly growth rate of house prices per square meter reached 15% between the second quarter of 2020 and the second quarter of 2022, well above the pre-pandemic (2015-2020) rate of 4.2%. By contrast, since the second half of 2022 the energy crisis and monetary policy tightening have put downward pressure on housing demand, leading to falling house prices and a declining price-to-income ratio. However, while house prices dropped, the price to income ratio remains high and mortgage costs increased, so that housing affordability remains a challenge (NBS, 2023<sup>[1]</sup>).

**Figure 1. House prices increased substantially until recently**

Real house price, index 2015Q1 = 100, seasonally adjusted



Note: European Union refers to the 27 member countries except Greece.

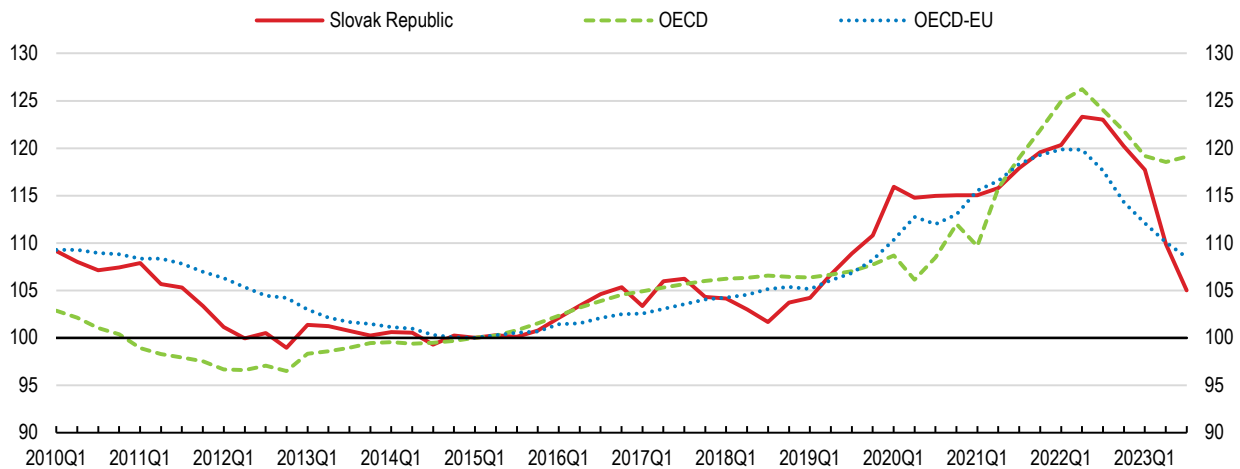
Source: OECD Price Statistics database; OECD Economic Outlook: Statistics and Projections database; Eurostat; and OECD calculations.

The underdeveloped rental market is particularly problematic for younger people. With typically lower income and wealth and greater likelihood of being employed in unstable or informal jobs than older groups, the young are much less likely to be able to afford a mortgage and own their home (Cournède and Plouin, 2022<sup>[2]</sup>). This partly explains the high proportion of young Slovaks (between 18 and 34 years old) who live with their parents (Figure 5, Panel A). A lack of valid alternatives to homeownership results in high overcrowding rates across the entire income distribution (Panel B).



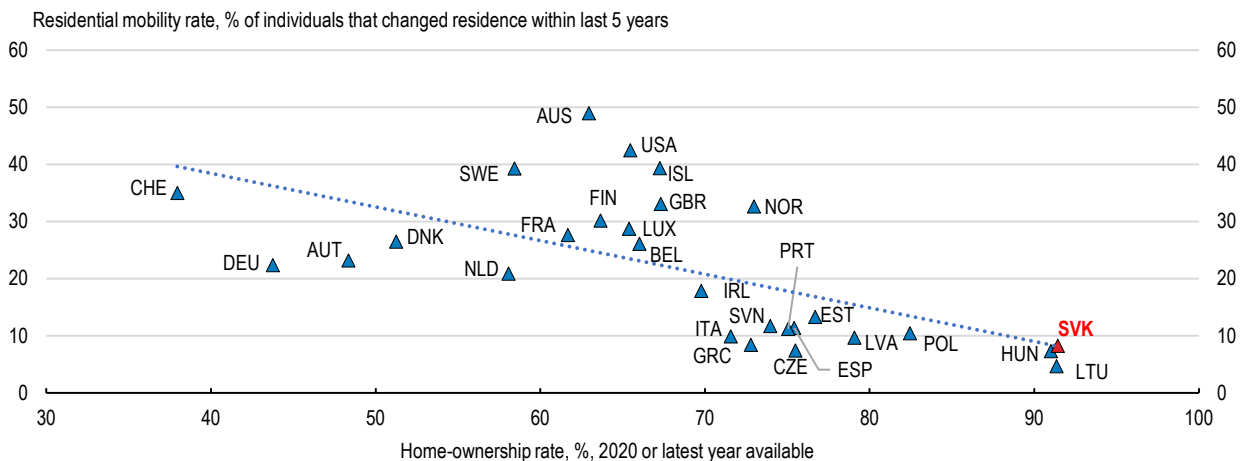
**Figure 2. House prices have increased faster than incomes until 2022**

Price to income ratio, index 2015Q1 = 100, seasonally adjusted



Note: OECD-EU refers to EU member countries that are also members of the OECD (22 countries).

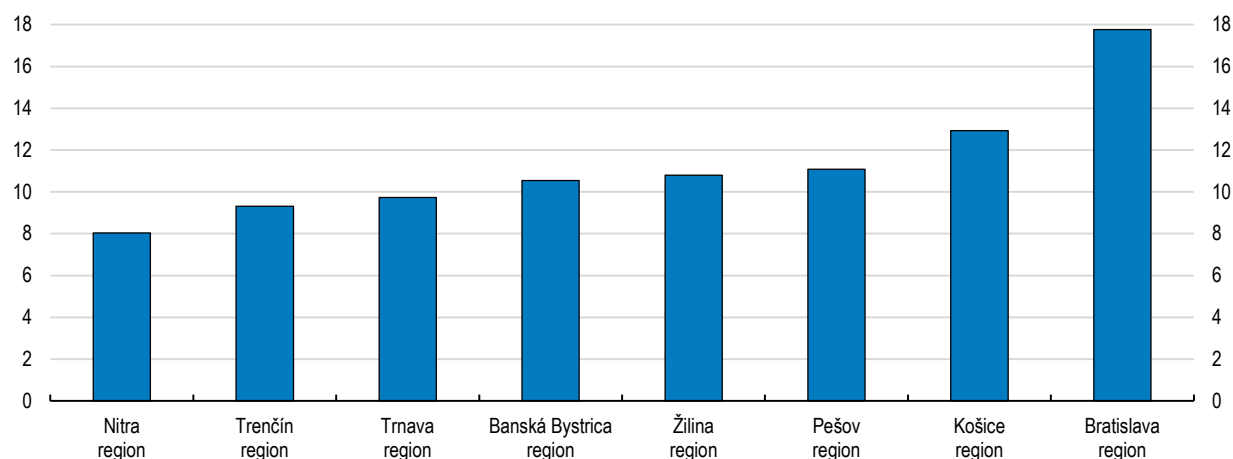
Source: OECD Price Statistics database; OECD Economic Outlook: Statistics and Projections database; Eurostat; and OECD calculations

**Figure 3. Homeownership is negatively correlated with residential mobility**Source: OECD Affordable Housing database; and OECD (2021), Brick by Brick: Building Better Housing Policies, OECD Publishing, Paris, <https://doi.org/10.1787/b453b043-en>.

Many low-income households live in poor housing conditions and are overburdened by housing costs. More than 25% of households in the bottom quintile of the income distribution live in overcrowded dwellings, and almost 7% of poor households - with income below 50% of median equivalised income - live in dwellings without flushing toilets (OECD, 2020<sup>[3]</sup>). These issues are particularly pronounced in the Eastern regions and among certain population groups, such as the Roma community, where the overcrowding rate reaches 86% and almost a third of the population lives in dwellings without access to tap water (European Union Agency for Fundamental Rights, 2022<sup>[4]</sup>). Moreover, about one in every three low-income households is overburdened by housing costs and energy poverty is a pressing issue. A significant share of housing-related expenses comes from electricity and heat bills (Figure 6, Panel A), which account for 8.5% of households' total expenditure, one of the highest rates among OECD countries. This results in many poor households (15%) not being able to keep their dwelling adequately warm (Panel B).

**Figure 4. Regional differences in housing affordability are high**

Number of years over which cumulated average household disposable income equals the average price of a 100 m<sup>2</sup> dwelling, 2022

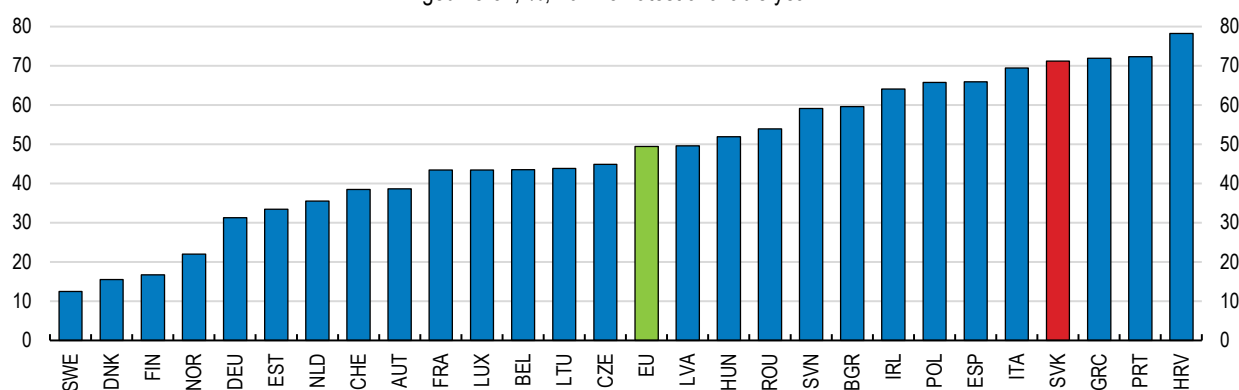


Source: National Bank of Slovakia (NBS); Statistical Office of the Slovak Republic; and OECD calculations.

**Figure 5. Many young adults live with their parents and overcrowding is common**

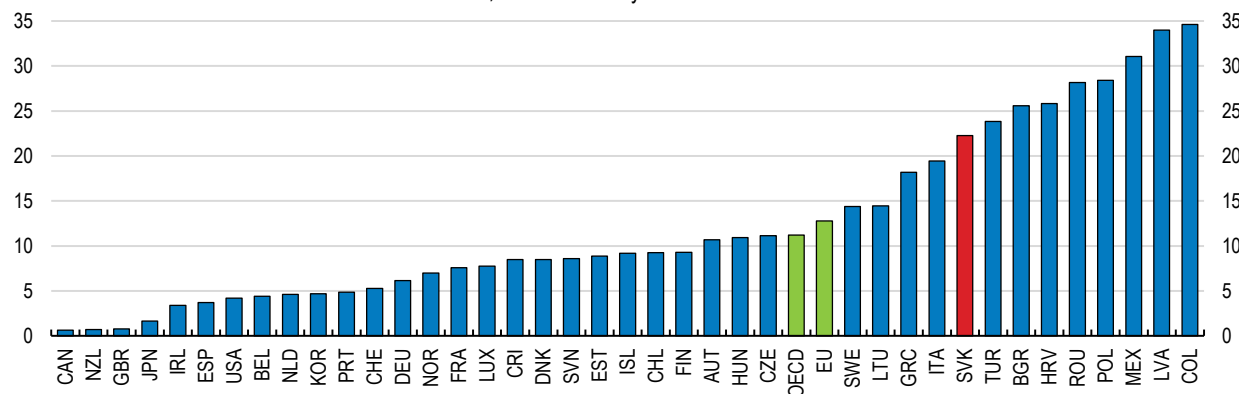
**A. Share of young adults living with their parents**

Aged 18-34, %, 2022 or latest available year



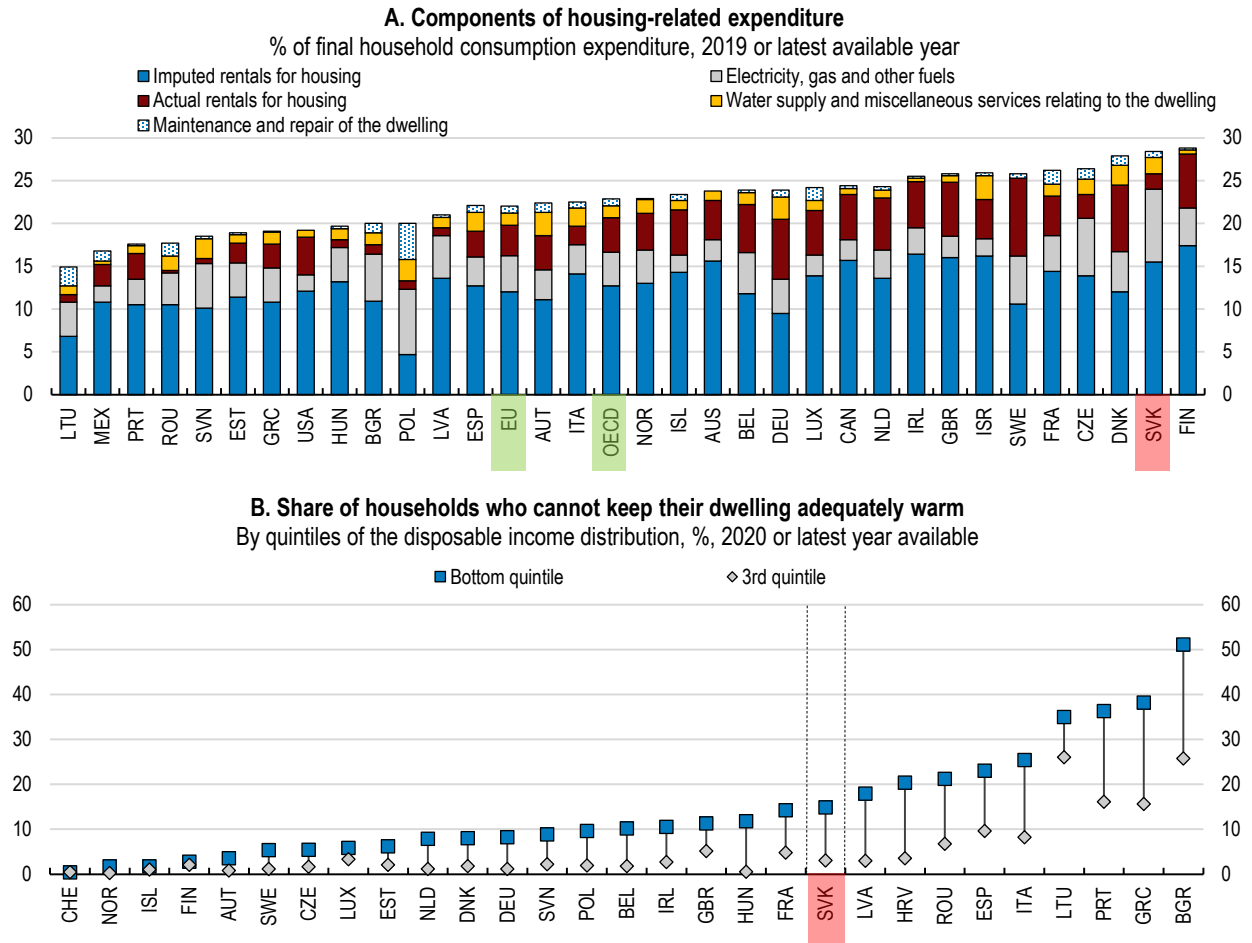
**B. Share of overcrowded households**

%, 2020 or latest year available



Source: Eurostat, EU-SILC database; and OECD Affordable Housing database.

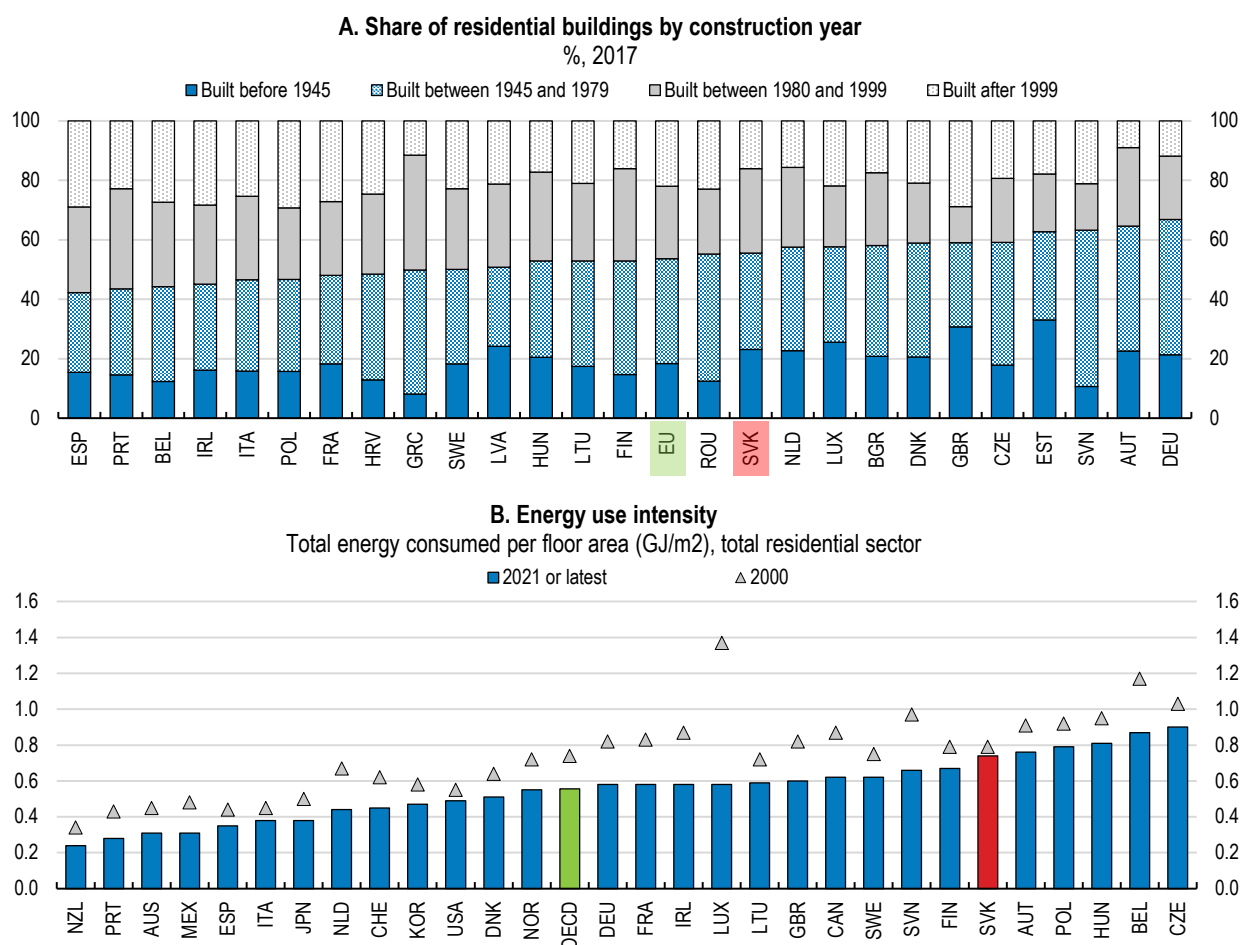
**Figure 6. Electricity and gas bills account for a high share of housing-related expenditure**



Source: OECD Affordable Housing database.

The often poor-quality of the housing stock contributes to energy poverty, high pollution, and high emissions. The housing stock comprises in large part prefabricated buildings that were constructed during the communist era with substandard material and methods (Ministry of Transport and Construction, 2020<sup>[5]</sup>). These buildings suffer from poor thermal performance, resulting in high energy consumption, and energy intensity in the residential sector remains relatively high (Figure 7), contributing to high costs for households for electricity and heat. The sharp rise in fossil fuel prices since the onset of Russia’s war of aggression against Ukraine puts additional pressure on household budgets and highlights the importance of improving energy efficiency in housing. The poor quality and insulation of the housing stock and the frequent use of inefficient domestic heating systems, such as boilers and heaters burning poor-quality fuel, contribute to high GHG emissions and air pollution. This jeopardises environmental goals and leads to elevated premature mortality, amounting to around 3 918 annual premature deaths every year due to air pollution in 2020 (EEA, 2020<sup>[6]</sup>).

**Figure 7. The housing stock is old and energy inefficient**



Note: In Panel B, OECD is an unweighted average of the available countries, shown in the figure.

Source: European Commission, EU Building Stock Observatory database; and International Energy Agency (IEA).

## Boosting housing market efficiency

Strong housing demand and sluggish supply contributed to the 2015-2022 run-up in house prices. As in many other OECD countries, a significant increase in households' income and steady decline in unemployment have boosted the demand for homeownership (Figure 8, Panel A, B). Additionally, the long period of accommodating monetary policy that ended in 2022, coupled with competition among Slovak banks, led to record-low mortgage rates and a surge in the number of mortgage holders (Panel C) (European Mortgage Federation, 2022<sup>[7]</sup>).

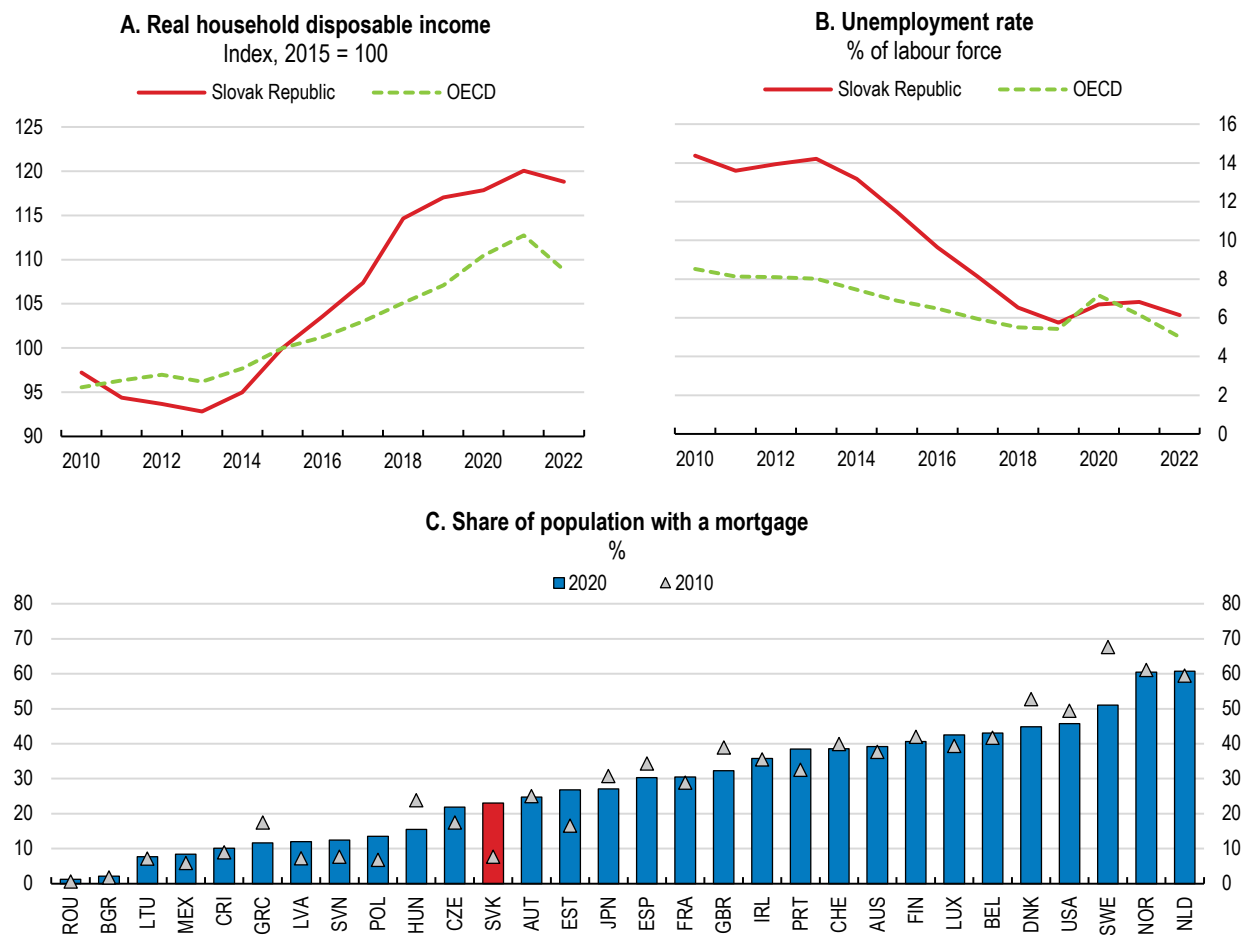
Nevertheless, total investment in housing as a percentage of GDP has remained below the OECD and EU averages (Figure 9, Panel A) and the number of dwellings per thousand inhabitants is among the lowest in OECD countries (Panel B). The Ministry of Transport estimates a housing deficit of around 200 000 units taking into account current housing availability and the demographic evolution (Ministry of Transport and Construction, 2020<sup>[8]</sup>).

More recently, house prices have started to fall, but affordability remains a concern. Tightening monetary policy has deflated housing demand resulting in a slowdown in the number of housing transactions (NBS, 2023<sup>[11]</sup>). This led to house prices peaking in June 2022. However, the house price to income ratio remains high (at 118% in the first quarter of 2023) and the fall in prices has not been enough to offset the rising costs of mortgages (NBS, 2023<sup>[11]</sup>; European Commission, 2023<sup>[9]</sup>). Additionally, the inflow of more than

100 000 Ukrainian refugees (about 2% of the population) puts additional pressures on the demand of affordable housing.

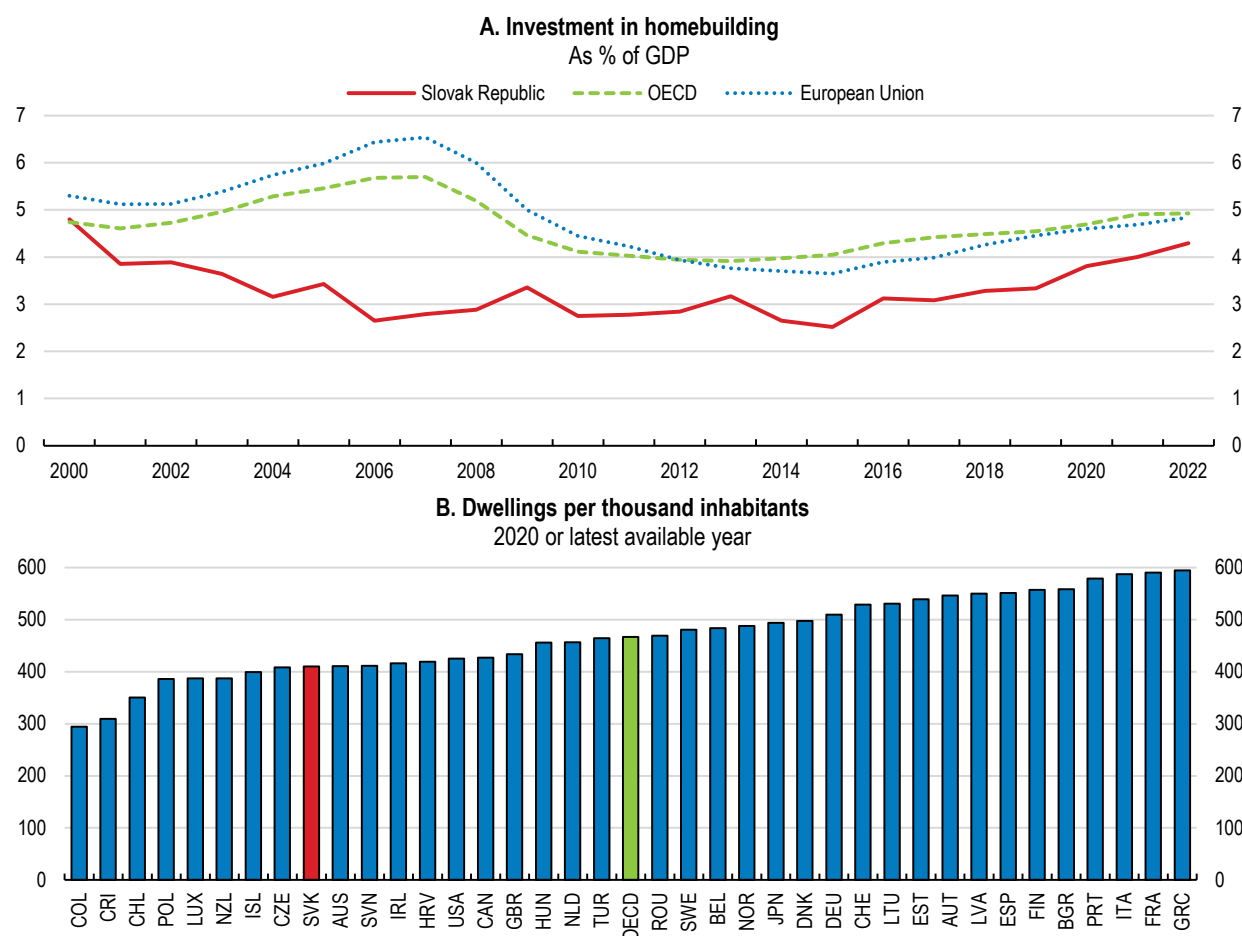
Reforms to housing policies are needed to ensure that housing demand and supply are aligned. First, there is scope for eliminating barriers to expand housing supply in response to demand pressures by reforming land use policy and improving the administration of building permits as planned. Second, measures can be taken to promote the expansion of the rental market and reform housing taxation to reduce the bias in favour of owner-occupied housing, thereby mitigating demand pressures. Finally, there is room to raise productivity in the construction sector, which currently faces several issues, including a shortage of skilled labour and lack of innovation (ECSO, 2021<sub>[10]</sub>). Improving education and training, as well as fostering innovation capacity and digital adoption, as discussed in the 2024 OECD Economic Survey of the Slovak Republic (OECD, 2024<sub>[11]</sub>), would help ease housing supply bottlenecks.

**Figure 8. Housing demand pressures have been strong**



Source: OECD National Accounts database; OECD Economic Outlook: Statistics and Projections database; and OECD Affordable Housing database.

Figure 9. Housing supply is low



Note: Data refers to the European Union including 27 countries. Unweighted averages for OECD and European Union aggregates.

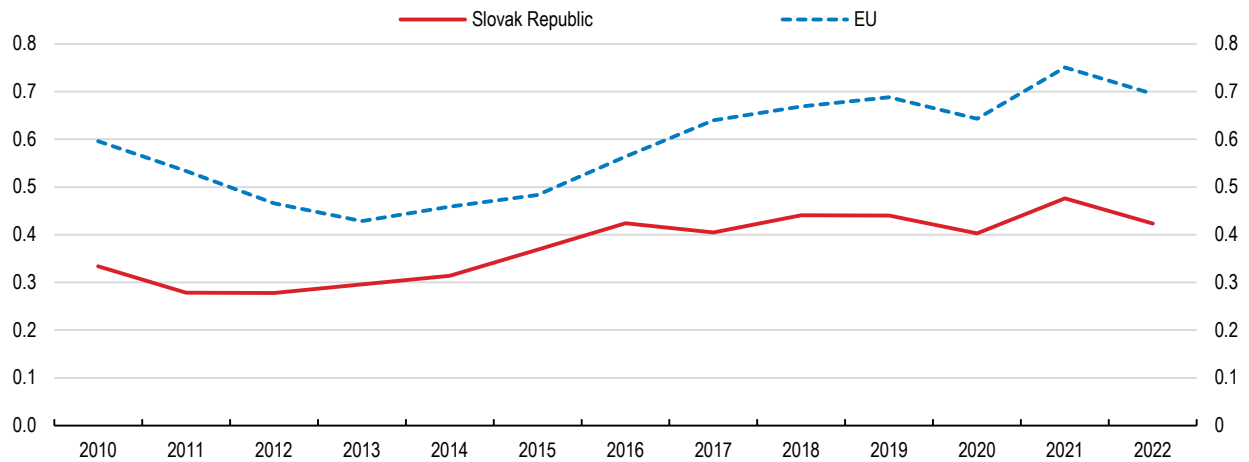
Source: OECD Economic Outlook: Statistics and Projections database; Eurostat National Accounts database; OECD Affordable Housing database; Slovak Republic's Population and Housing Census 2021; OECD calculations.

### ***Streamlining land use policy and building permit procedures to enhance supply responsiveness***

There are inefficiencies in the administration of construction activities. The process for obtaining building permits is too long. It takes on average 300 days to issue a construction permit, versus 152 days in the average OECD country (World Bank, 2019<sub>[12]</sub>). The number of residential constructions permits per capita has been persistently lower than in other EU countries (Figure 10). Inefficiencies in the administration of construction activities can be attributed both to the organisation of land use policy and to lack of digitalisation in the building permit procedures.

**Figure 10. Per capita residential construction permits lag behind other EU countries**

Construction permits for residential buildings, square metres per inhabitant



Note: Unweighted average for the EU.

Source: Eurostat Building permits database.

*Reducing administrative fragmentation to pool resources and facilitate constructions*

Land use policy is currently highly decentralised, and the devolution of building competences to local governments has not been accompanied by adequate capacity reinforcement. The decentralisation of public administration, which started in 1990, shifted the responsibility for construction-related activities, including the authority to grant building permits, to municipalities. However, municipalities often face significant challenges in executing these tasks due to limited financial and human resources. By law, municipalities receive designated transfers from the central government to fund the administration of construction activities. Nevertheless, these transfers often fall short of needs, especially for smaller municipalities, as they are solely tied to population size and do not consider the fixed costs associated with such activities (Supreme Audit Office, 2022<sup>[13]</sup>). This is particularly problematic as Slovakia has one of the most fragmented local government systems in the OECD (with an average population of 1 863 inhabitants per municipality, compared with an OECD average of 10 254, and 2/3 of municipalities having less than 1 000 inhabitants). Consequently, a large share (58%) of actual expenditure for construction-related activities is covered by municipalities through their own resources (Supreme Audit Office, 2020<sup>[14]</sup>; Supreme Audit Office, 2022<sup>[13]</sup>). Local revenue autonomy is however limited, as recurrent taxes on residential property - a primary source of income for local authorities - are very low (see below).

High administrative fragmentation and inadequate financial resources translate into difficulties to hire qualified staff at the municipal level. This is particularly problematic in the area of construction planning and permitting. Construction-related activities require highly specialised workers and continuous training. Finding and attracting high-skilled workers is in general difficult for a municipality as it cannot afford to pay competitive wages (MoF and University of Economics of Bratislava, 2017<sup>[15]</sup>). As a consequence, qualification requirements for professionals approving building plans (three years of experience and a qualification exam) are lower than in most other OECD countries, where a university degree in engineering or architecture is needed (World Bank, 2018<sup>[16]</sup>). Moreover, training of staff in charge of the building procedures is provided on an irregular basis and attendance is limited (Supreme Audit Office, 2022<sup>[13]</sup>).

Decentralisation and fragmentation of land use planning and construction administration can also result in delays or refusal of construction projects due to resistance of local communities (OECD, 2021<sup>[17]</sup>). This risk is particularly pronounced at lower levels of government, where policy capture by local stakeholders is more of a concern. Local stakeholders can exert pressure on local politicians to advocate for restrictions that protect or enhance the value of their homes. Indeed, the Supreme Audit Office has documented

several cases of obstructions and violation of the law by local building authorities related to the issuance of building permits to accommodate local stakeholders (Supreme Audit Office, 2022<sup>[13]</sup>).

Efforts are underway to address the challenges arising from the decentralised and fragmented administration of residential development activities. The authorities have announced plans to re-centralise decision-making power for residential development activities starting from April 2025. This will be accomplished through the establishment of a new central authority dedicated to spatial planning and constructions. The new office will also provide assistance and a common methodology for preparing spatial plans to each municipality and regional authority, which is currently not in place.

The authorities should carefully consider the trade-off between gaining efficiency by re-centralising residential development activities and potentially losing proximity to citizens. On the one hand, centralised land use policy would ensure an appropriate distance to mitigate pressures from local stakeholders, reducing barriers to construction and improving the alignment of supply and demand (OECD, 2021<sup>[17]</sup>). Furthermore, transferring responsibilities from the municipalities to a higher level of government can free up resources for better training of officials and attract highly skilled technical personnel essential for tasks like spatial planning and construction procedures through higher wages. On the other hand, highly centralised land use policy could, if improperly implemented, impose overly rigid procedures (for example to modify spatial plans), which could hamper the ability to quickly adapt to the evolving needs of the local housing market (Mualam, 2018<sup>[18]</sup>).

In re-centralising competences in land use policy, the authorities should foster consultation with the local administration to ensure an adequate level of information about local housing market conditions. While doing so, it is essential to avoid overlapping competences across government levels, as this could lead to each group having veto power, causing further delays or undue rejections of construction projects (Cavalleri, Cournède and Özsöğüt, 2019<sup>[19]</sup>).

Furthermore, the authorities should clarify responsibilities and promote close coordination among various actors with overlapping or complementary competences in housing policy at the central level, i.e., the Ministry of Transport, the Ministry of Environment and from 2025 the new authority for spatial planning and construction. Lack of coordination can result in inefficiencies, duplication of efforts, and conflicting policies or regulations that can limit the effectiveness of national housing policies (OECD, 2021<sup>[17]</sup>). In Israel, the Housing Headquarters is a successful model of coordinating various government housing agencies. Created in response to a housing crisis in 2015, this committee has effectively brought together relevant authorities, and led to smoother collaboration and quicker planning and construction timelines (OECD, 2021<sup>[17]</sup>; OECD, 2017<sup>[20]</sup>).

In light of the high administrative fragmentation, the authorities could also consider merging small municipalities, or making inter-municipal co-operation compulsory for competences that remain under the responsibility of the local government, such as spatial planning. Mandatory mergers of municipalities, as in Denmark, Greece, Japan, and New Zealand, are effective in reducing administrative fragmentation, but can be politically challenging (OECD, 2020<sup>[21]</sup>). Currently in Slovakia, municipalities that face a high administrative burden in the area of land use policy and construction activities can coordinate and delegate construction-related activities to a Joint Building Office (JBOs) on a voluntary basis. Such cooperation is however not systematically supported by the state, neither financially nor methodologically. Most local representatives are therefore reluctant to delegate competences to JBOs (Klimovský et al., 2014<sup>[22]</sup>; Sloboda et al., 2020<sup>[23]</sup>).

The authorities should strengthen intermunicipal cooperation and allocate adequate resources to the JBOs (via transfers or revenue autonomy). For example, in France, a country with a highly fragmented local administration, intermunicipal cooperation on some competences, including spatial planning, was made mandatory in 2017. Strengthening cooperation across municipalities over competences in land use policy could optimise resources through the transfer of competences to such higher levels of government. Moreover, inter-communal spatial plans, that include several municipalities, can be more effective in



assigning housing and infrastructure where it is most needed and help better plan the expansion of public services (OECD, 2017<sup>[24]</sup>).

### *Accelerating efforts to digitalise and increase the transparency of permitting procedures*

Cumbersome procedures and limited digital adoption slow the administrative process for residential development. Obtaining building permits involves numerous steps and multiple stakeholders. This results in a larger number of documents that need approval compared to peer OECD countries in central and eastern Europe, with the exception of Czechia (Table 1). Construction reforms have been implemented in some other central and eastern European countries, resulting in substantial simplification and acceleration of building permits procedures. Reforms in Poland and Latvia, for example, have led to the removal of certain documentation requirements previously necessary for building permit applications (e.g., inspections from the Public Health Agency, geotechnical documentation of the land) (World Bank, 2016<sup>[25]</sup>; World Bank, 2019<sup>[26]</sup>).

Furthermore, Slovakia lacks a centralised one-stop shop for gathering and filing all the necessary information related to building permits, despite the availability of an online list of required documents (Table 1). Zoning plan documentation is often not available online, and when it is, it is rarely in a format that enables further processing of the data or automated evaluations. Moreover, there is no digital service which allows communication between building administrations and applicants to track progress during the process. This implies that investors need to engage with the administration via standard mail service or face to face, which significantly slows down the process (ECSO, 2018<sup>[27]</sup>).

Ownership fragmentation and an outdated registration system hinder residential investment. The ownership registration system in many cases does not allow the identification of all owners, and data is not easily readable, as information is mostly recorded in paper format. This is particularly problematic due to the high fragmentation of ownership resulting from inheritance laws and the property restitution process after the communist period, which makes it particularly challenging to identify and track all owners (Muchová and Raškovič, 2020<sup>[28]</sup>). The combination of ownership fragmentation and issues in the registration system contribute to high uncertainty around property rights, which hinders investment in property development, as well as infrastructure. Investors need to undergo complicated, time-consuming, and legally expensive processes to establish property rights.

General courts as opposed to specialised courts handle objections related to building permits. Handling of litigation by general courts is associated with longer trial duration, lengthening the building permit procedure (Palumbo et al., 2013<sup>[29]</sup>).

### **Table 1. There is room to simplify the building permit procedure**

Characteristics of the building permit for residential unit procedure in the Slovak Republic and selected OECD countries

Selected questions in QuASH 2021	<b>Slovak Republic</b>	Czechia	Hungary	Poland	Estonia	Latvia	Lithuania
Number of steps in the procedure	<b>5</b>	6	4	3	2	2	7
Number of documents needed for approval	<b>23 minimum</b>	39	6	4	3	3	4
List of pre-required documents available online	<b>Yes</b>	No	Yes	Yes	Yes	Yes	Yes
Existence of one-stop shop to file for the permit	<b>No</b>	No	Yes	No	Yes	Yes	Yes
Objections to building permit requests handled by specialised courts	<b>No</b>	Yes	Yes	Yes	Yes	No	No

Source: OECD Questionnaire on Affordable and Social Housing (QuASH) (2021)

There are plans to fully digitalise information related to construction and building permits only by 2032. While this is a welcome step, it is important to expedite the process and pay special attention to the implementation phase. In fact, efforts to increase digitalisation in construction-related procedures have been a long-standing goal, driven by directives from the European Commission. However, implementation has been hindered by the absence of legal obligations and high estimated costs (Supreme Audit Office, 2022<sup>[13]</sup>). In digitalising building permit procedures, the authorities could follow successful examples from other countries, such as Croatia and Estonia (Box 1). Both countries have introduced digital platforms that enable online applications for building permission and facilitate communication between building administrations and applicants to track progress. These platforms serve as a comprehensive one-stop shop, providing easy access to all relevant documents. They enable the use of machine-readable documents and facilitate the full utilisation of construction-related data, effectively reducing paperwork and enhancing transparency, leading to a substantial increase in administrative efficiency and savings in costs. Moreover, the transition to a fully digital land registry and cadastre lays the ground for legal certainty by improving the transparency of property rights.

The lack of enforceable statutory deadlines in the building permit process contributes to high uncertainty for investors, perceived corruption, and unauthorised constructions. Currently, the administration has non-enforceable timeframes to respond to applicants at each stage of the permit process. This contributes to prolonged waiting times and a lack of certainty for investors, creating incentives for corruption. Individuals may rely on personal connections or even resort to making unofficial payments to officials in order to obtain or expedite permissions (Eurobarometer: Corruption, 2022<sup>[30]</sup>). Furthermore, this also results in applicants building unauthorised structures, in absence of severe sanctions. These constructions often lack proper quality standards, posing potential safety risks to the public and the environment (ECSO, 2018<sup>[27]</sup>).

To reduce perceived corruption, limit the practice of unauthorised buildings and speed up construction projects, the authorities could also consider introducing national statutory deadlines in the building permits procedure. Following these deadlines, applicants could automatically receive project approval, unless specific circumstances arise, such as the presence of historical monuments or natural reserves, as is the case in France. Alternatively, the decision could be referred to a higher instance, akin to the administrative procedures in Austria, Portugal, and Slovenia (Costa Branco, Meijer and Visscher, 2011<sup>[31]</sup>). This provides a strong incentive for building authorities to respond in time but should be coupled with efforts to improve the efficiency of administrative procedures for construction, as mentioned above. The regulation should also involve stricter enforceable sanctions for non-compliance with the rules.

## Box 1. Digitalisation of building permits in Croatia and Estonia

### *The "eDozvola" system in Croatia*

Croatia has taken significant steps to digitalise the building permit process. In 2014 the Ministry of Physical Planning, Construction, and State Property launched the "eDozvola" platform, a centralised information system which allows for electronic submission of applications for construction permits, along with real-time updates on application status. Applicants can provide all required information, attachments and projects through the public portal during the application process. The system ensures consistent document processing throughout the country, enabling faster administrative processes and maintaining a digital archive of application-related attachments. This made the issuance of building permits more transparent and allowed to reduce the number of days needed to obtain building permits from 188 in 2014 to 126 in 2018, benefiting both the public sector and applicants.

### *The "Ehitisregister" in Estonia*

Estonia is at the forefront of digital public services adoption in the European Union (European Commission, 2022<sup>[32]</sup>). As part of comprehensive e-government services, and in line with the e-Europe strategy, Estonian authorities have developed a digital e-construction platform (*Ehitisregister*) that has been in place since 2015. This platform enables individuals and businesses to apply for building permits and submit the required documentation electronically. Applicants can also track the progress of their permit applications online and receive notifications and updates. The system is linked to a digital building logbook which contains all relevant data related to each phase of the building lifecycle (i.e., design, construction, maintenance, renovation, demolition), allowing to track the history and requirements of the building and ensuring that operational procedures are followed correctly.

The digitalisation of building permits has led to reduced paperwork, improved transparency, reduced uncertainty for investors, and better coordination among stakeholders in the permitting process. This allows fast processing times. Indeed, in 2019 obtaining a building permit took approximately 100 days, compared to an average of 152 days in other OECD countries (World Bank, 2019<sup>[12]</sup>).

Supported by the European Union, in 2019 Estonia took another significant step achieving full digitalisation of the procedure by starting to integrate the e-construction platform with a 3D model-based process known as building information modelling (BIM). Compared to standard 2D models (PDFs), 3D models facilitate the generation of detailed and precise construction documentation, including drawings, schedules, and quantities. By enabling the administration to visualize the design of the project and identify potential issues, this technology significantly reduces errors during the technical inspection of building design documentation (compliance with zoning plans, laws, and regulations), leading to a substantial increase in administrative efficiency. A cost-benefit analysis revealed savings of more than EUR 500 000 per year and an increase of workload efficiency by about 8-10% associated with the introduction of a fully digital building permit system in Estonia (ECSO, 2021<sup>[33]</sup>).

Source: (ECSO, 2021<sup>[33]</sup>), <https://www.mkm.ee/en/construction-and-residential-sector/construction/building-register>;

## ***Reforming the regulation of tenant-landlord relations to facilitate the development of the private rental market***

The Slovak formal private rental market is one of the smallest in the OECD. Following the extensive privatisation of state-owned housing in the early 1990s, only 6.8% of the population lives in a privately rented flat, well below the 16.8% OECD average (OECD, 2020<sup>[31]</sup>). Anecdotal evidence points at the existence of a non-negligible informal private rental market which, aside from the losses in tax revenues due to the lack of declared rental incomes, limits the protections and security of both property owners and

tenants. Official estimates of the size of the shadow rental market are missing. However, the Ministry of Transport estimates the size of the informal rental market to be at least 3% of the housing stock overall.

Expanding the formal rental market has been recommended in past OECD Surveys (OECD, 2014<sup>[34]</sup>; OECD, 2017<sup>[35]</sup>). A well-developed formal rental market can improve housing affordability by providing an alternative to homeownership, especially for those households, such as the young, who may face challenges in accumulating down-payments and establishing strong credit scores required for a mortgage. A well-functioning rental market can also encourage residential mobility, which is closely linked to job mobility, and can therefore boost efficient job and skill matching and productivity while reducing regional disparities (see the 2024 OECD Economic Survey of the Slovak Republic (OECD, 2024<sup>[11]</sup>)). Public policies can play an important role in incentivising the development of a formal private rental market. For example, changes in the regulation aimed at striking a better balance between the protection of homeowners and tenants, in combination with a tax reform that ensures more balanced taxation of owner-occupied and properties to rent (see below), have the potential to make the rental market more attractive for both tenants and landlords and to bring the informal market out of the shadows.

In Slovakia, rental regulation does not strike an appropriate balance between the protection of landlords and tenants. There are no controls on rent levels, and the extent and frequency of rent increases need to be specified in the rental agreement. Together with Lithuania – a country with an even smaller rental market – Slovakia is one of the few OECD countries where lease agreements can be signed for an indefinite period and automatically passed on to family members. Furthermore, rental contracts cannot be terminated in certain circumstances (i.e., the tenant is in material need), unless the landlord provides alternative accommodation to the tenant upon ending the lease. While restrictions to contract termination are not unusual in OECD countries, especially in central-eastern Europe, the combination with indefinite contracts which can be passed on to family members makes the regulation of tenant-landlord relations more unbalanced towards the protection of tenants (Table 2). Moreover, disputes related to rental agreements often take a long time to settle, averaging around 26 months between 2018 and 2022. This extended timeframe enables tenants to continue residing in the properties throughout the dispute resolution process. This creates a deterrent for landlords, undermining investment in the rental market (MoF, 2019<sup>[36]</sup>).

Making the regulation of tenant-landlord relations more balanced has been a long-term objective of the authorities. It was one of the key priorities of past State Housing Policy plans and it is one main objective in the latest state housing strategy (Ministry of Transport and Construction, 2020<sup>[8]</sup>). The introduction of the 'Short-Term Rental Act' in 2014 aimed to address this issue by implementing a separate legislation for fixed-term rental contracts, which can be applied at the discretion of the parties. The Short-Term Rental Act imposes a duration of rental contracts of maximum two years, with only two permitted renewals for a further fixed term not exceeding two years. It envisages more flexible rules to terminate the lease via shortening the notice period to a minimum of 15 days to 30 days in some circumstances (Table 2) as opposed to three months, eliminating the obligation to find replacement housing for evicted tenants and the obligation to pass the tenancy to the heirs. It also introduces the obligation for the tenants to pay a maximum three-months security deposit (absent in indefinite contracts).

While some of these measures represent positive steps for incentivising investment in rental housing, others can have negative unintended consequences. Indefinite contracts have become rare given the level of tenant protection they afford, and most new contracts are subject to the Short-Term Act. This has created a dual rental market, where few tenants are excessively protected while many others experience instability. For example, the 15 to 30 days' notice period in case of termination of the lease agreement by landlords is the shortest among OECD countries (Table 2) and raises the risks of evictions, which in turn can raise the likelihood of a range of life adversities for tenants, including homelessness (Kenna et al., 2016<sup>[37]</sup>; OECD, 2021<sup>[17]</sup>).

The authorities should rebalance the rights of landlords and tenants in rental contracts. Specifically, the government should make provision for a rental contract that includes a fixed duration but can be renewed an unlimited number of times; introduces the obligation for tenants to pay a security deposit; specifies reasons to evict the tenant with adequate notice period (e.g., three months as in most OECD countries); and does not include the obligation for landlords to find replacement housing for evicted tenants and to pass the tenancy to the heirs. In parallel, the maximum duration of short-term rental contracts should be reduced, in line with some other OECD countries (e.g., Austria, France, Ireland, Italy, Norway, Slovenia), to avoid incentivising their use for medium and long-term purposes.

Some efforts have also been made to incentivise the formalisation of rental contracts. Indefinite rental contracts do not require any registration for the validity of the lease agreement. In contrast, upon signing a short-term rental contract, the landlord has the legal obligation to officially register the contract with the tax authority; however, the lack of control from the Financial Administration has hindered enforcement. Efforts to rebalance taxation between owner-occupied and rental housing as suggested below could further help incentivise the formalisation of rental contracts. Additionally, the authorities could consider providing more incentives to landlords and tenants to formally register rental contracts in a rental registry, as for example was done in Latvia in 2021. The Latvian reform expedites termination of registered rental contracts for landlords while enhancing security for tenants (Box 2) (OECD, 2020<sup>[38]</sup>; Ūdris, 2022<sup>[39]</sup>; OECD, 2023<sup>[40]</sup>). The Latvian reform also effectively reduced the administrative burden associated with registration by enabling online registration without the need for a notary visit and allowing electronic signatures of contracts. A similar reform would not only benefit both tenants and landlords, as it would enable to enforce their rights but would also provide reliable public information on rental transactions and tackle tax evasion in the rental market.

### **Box 2. Reform to rebalance tenant-landlord relations and incentivise formalisation of the private rental market in Latvia**

In 2021, the Latvian Ministry of Economy implemented a new legal framework for residential tenancy with two primary objectives.

First, the law aims to strike a better balance between the rights of landlords and tenants in the private rental market. This is achieved by: i) eliminating the previous practice of indefinite lease agreements; ii) facilitating the tenants ability to terminate the contract and clarifying specific conditions under which a landlord can terminate the lease; iii) eliminating the rights of family members to automatically take over a lease agreement (except in the case of the tenant's death); iv) expediting the dispute resolution process for terminating tenancy contracts in certain circumstances (non-payment of rent and utility for more than 2 months for registered contracts); v) stipulating the conditions under which a landlord may increase the rent.

Second, it incentivises property owners to officially register their rental properties in a newly established rental registry. By registering, tenants of these properties receive enhanced security, such as the ability for their contracts to remain valid even if the property ownership changes, which was not possible in Latvia before the reform. This provides an incentive for tenants to agree to the registration. Furthermore, the expedited dispute resolution process for terminating tenancy contracts is applicable only to registered contracts, which serves as an incentive for landlords. The primary goals of the registry are to improve transparency, establish the legally binding nature of agreements for renters, and streamline the dispute resolution process. Additionally, the registry makes available reliable public information on rental transactions, which ultimately safeguards the interests of both landlords and tenants.

Source: (OECD, 2020<sup>[38]</sup>; Ūdris, 2022<sup>[39]</sup>; OECD, 2023<sup>[40]</sup>)

**Table 2. Regulation of tenant-landlord relations in selected OECD countries**

	Size of the private rental market (as % of the housing stock)	Typical minimum rental contract duration	Reasons for the landlord to terminate the rental contract	Restrictions to terminate rental contract	Legally required notice period for the landlord to terminate the rental contract	Deposit requirement (in equivalent of monthly rent)
Australia	32.1	No minimum duration – negotiable between landlord and tenants	Varies by province, but in general: failure to pay rent; renovation of the dwelling; occupation by the landlord; sale of the dwelling	No	Varies by state, by reason for termination and by type of tenancy (2 months in standard contracts)	Varies by state/territory
Canada	30.8	In most provinces, landlords and tenants are not required to sign a formal lease and many rental contracts are month to month	Varies by province, but in general: failure to pay rent; renovation of the dwelling; occupation by the landlord; sale of the dwelling	No	Varies by province, by reason for termination (minimum 7 days, maximum 120 in Ontario)	1 month
Czechia	17.8	12 months	Varies by province, but in general: failure to pay rent; occupation by the landlord	No	3 months	Maximum 6 months
Estonia	5.7	Contracts for a short, specified period are most common	Failure to pay rent	No, but a court may suspend or defer enforcement proceedings if it is unfair to the debtor, e.g. based on family and economic situation of the debtor	3 months	Maximum 3 months, usually 1 to 2 months
Finland	18.2	12 months	Failure to pay rent; renovation of the dwelling; occupation by the landlord; sale of the dwelling	No	3 months	1 to 3 months
Hungary	4.5	12 months	Failure to pay rent	Winter time, presence of children, long term illness of tenant can lead to suspension of eviction procedure	1.5 months	Maximum 3 months
Latvia	7.2	A reform was introduced in 2021 to eliminate indefinite lease agreements	Failure to pay rent; renovation of the dwelling	Presence of children, people with disabilities	1 month	No limit
Lithuania	0.8	Indeterminate or fixed term	Failure to pay rent	Winter time, presence of children, people with disabilities	6 months	1 to 3 months
Poland	4.0	6-12 months	Failure to pay rent; renovation of the	Winter time, presence of	1 month	6-12 months

			dwelling; occupation by the landlord	children, people with disabilities		
Slovakia	6.8	A contract of lease of a dwelling may be formed for an indeterminate term. A short-term contract can be signed for a maximum 2-years period (renewable twice)	In indefinite contracts: failure to pay rent; renovation of the dwelling; occupation by the landlord; sale of the dwelling; the tenant damages the dwelling. In short-term contracts: failure to pay rent; the tenant damages the dwelling or uses of the dwelling for different purposes; other reasons specified in the contract	In indefinite contracts: presence of children, people with disabilities and people in material need. The landlord needs to provide an alternative accommodation solution to the tenants if s/he wants to terminate the rental contract. In short-term contracts: no restrictions specified in the Act	In indefinite rental contract: 3 months. In short-term contracts: 2 weeks to 1 month. The 2-weeks' notice applies in case the tenant damages the dwelling or did not pay rent in time for more than 2 months	In indefinite rental contracts: no requirement. In short-term contracts: maximum 3 months
Switzerland	55.5	12 months	Failure to pay rent; renovation of the dwelling only in case this creates significant delays or costs; occupation by the landlord	Winter time	3 months	3 months
United States	32.7	12 months	Varies by state, but in general: failure to pay rent; renovation of the dwelling; occupation by the landlord; sale of the dwelling	No	Varies by state (minimum 1 month)	Varies by state, but usually 1 to 2 months

Source: OECD Questionnaire on Affordable and Social Housing (QuASH) (2021)

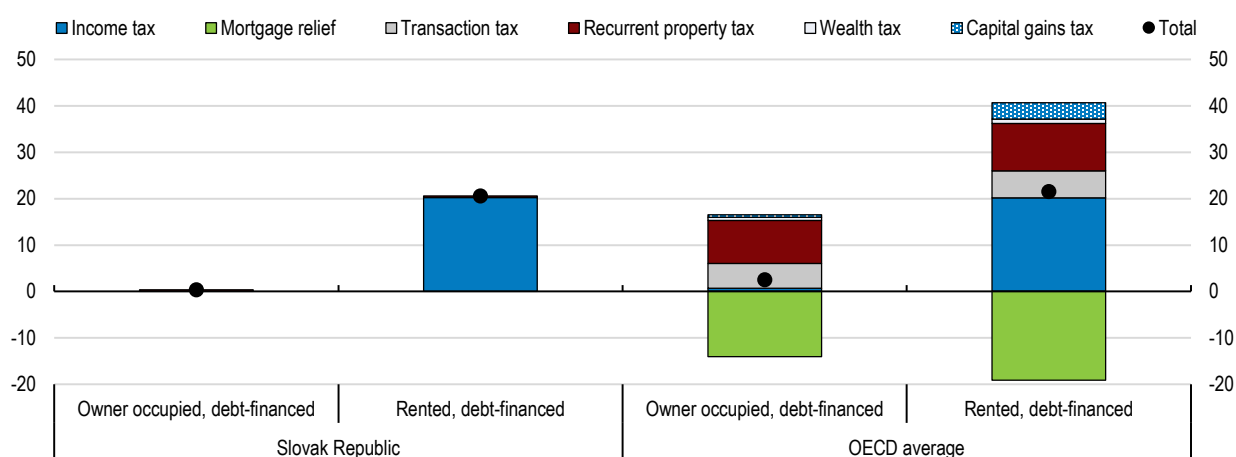
## **Reforming housing taxation to reduce pressure on demand for owner-occupied housing and improve affordability**

### *Reducing the tax bias in favour of owner-occupied housing*

As in many OECD countries, the tax treatment in Slovakia favours owner-occupied housing over renting. The marginal effective tax rate (METR) on owner-occupied property in Slovakia is much lower compared to rented residential property (Figure 11). In line with other OECD countries, the difference in METR between owner-occupied housing and rental housing can be attributed mainly to the non-taxation of imputed rents, in contrast to the taxation of rental income through personal income tax. In addition, since 2018 mortgage interest expenses on owner-occupied housing are tax deductible for young households (between 18 and 35), in contrast to rental housing for which such deductions are not available. However, the deduction is capped at EUR 400 yearly. Tax settings that promote owner-occupied housing are common in OECD countries (OECD, 2022<sup>[41]</sup>). In general, they are justified by claims that they promote household financial security and stability or produce social benefits through increased community attachment (OECD, 2022<sup>[42]</sup>). However, favourable tax treatment to owner-occupied housing, especially in the presence of supply rigidities, translates into higher demand pressures and higher house prices, ultimately making housing less affordable (Fatica and Prammer, 2017<sup>[43]</sup>; OECD, 2021<sup>[17]</sup>; Remeta et al., 2015<sup>[44]</sup>).

## Figure 11. Taxes are lower for owner occupied property

Marginal effective tax rates, debt-financed housing, %, 2016



Source: Millar-Powell, B., et al. (2022), "Measuring effective taxation of housing: Building the foundations for policy reform", OECD Taxation Working Papers, No. 56, OECD Publishing, Paris, <https://doi.org/10.1787/0a7e36f2-en>.

Gradually phasing out mortgage interest relief would help rebalance the tax treatment between owner-occupied and rental property. In absence of taxation on income generated by owner occupied housing (imputed rents) the justification for allowing deduction of costs, including mortgage interest payments, is limited as there is no corresponding taxable income (OECD, 2022<sup>[41]</sup>). In addition, mortgage interest relief on owner-occupied housing is capitalised into house prices leading to higher prices, especially when supply is inelastic (Sommer and Sullivan, 2018<sup>[45]</sup>; Gruber, Jensen and Kleven, 2021<sup>[46]</sup>). Moreover, it increases households' indebtedness with potential effects on macroeconomic stability (Sommer and Sullivan, 2018<sup>[45]</sup>). Empirical evidence from Denmark shows that scaling back mortgage interest rate relief can substantially reduce equilibrium house prices and household indebtedness (Gruber, Jensen and Kleven, 2021<sup>[46]</sup>). However, mortgage interest relief should be phased out gradually to mitigate adverse impacts on households that would have otherwise benefitted from the tax advantage, over the adjustment period (OECD, 2021<sup>[17]</sup>).

The authorities should also consider easing expensing rules related to rental residential investment. Currently, private landlords (as opposed to business investors) can only deduct direct operational expenditures incurred via rental activity, such as electricity, gas, water supplies and sewerage costs from rental revenues for tax purposes. This is different from most OECD countries, where private landlords can also deduct mortgage interest expenses and maintenance costs (OECD, 2022<sup>[41]</sup>). Expanding eligible expenses for private landlords would create a more favourable environment for rental activities, especially in a context of high price to rent ratios. However, this would create additional complexity for the administration that would need to verify that the declared costs are maintenance costs and not costs incurred to improve the property. The latter represents an investment and therefore should not be deductible.

Phasing out tax exemptions on capital gains from the sale of the property would further reduce the bias towards homeownership and increase equity. Capital gains on the sale of the property are tax exempted after five years of ownership, adding to the tax bias in favour of homeownership (Remeta et al., 2015<sup>[44]</sup>). Such exemptions are generally justified by protecting people's savings for retirement and to avoid lock-in effects, i.e., households staying in the property to avoid paying the tax. Potential lock-in effects could be mitigated by basing the recurrent property taxes on values as suggested below, which would limit incentives for households to remain in undervalued homes, and by taxing capital gains only at a low rate. In addition, the tax exemption of capital gains on owner-occupied property exacerbates regional inequalities by favouring households in large metropolitan areas, where property prices experience



substantial growth on already highly valued properties. To support most vulnerable households, capital gains taxes could be exempted only for the main residence below a certain threshold, as is done for example in Israel, Korea, Mexico and the United States (OECD, 2022<sup>[41]</sup>). However, capital gains on multiple homes should not be exempted to promote neutrality across different asset classes and increase the fairness of the tax system, as owners of second homes have generally higher income and wealth. This could however contribute to the bias in favour of owner-occupied housing (Remeta et al., 2015<sup>[44]</sup>).

Tax exemptions for private investors to provide rental housing at below-market prices should also be avoided. In 2022, the authorities introduced VAT reductions (from 20% to 5%) for private investors financing the provision (construction or acquisition) of rental housing targeted at middle- and low-income households. Tax incentives for the provision of rental housing with rents below market price are common in other OECD countries. For example, tax reductions are provided to developers in Chile, Colombia, Germany, Türkiye, Portugal, Spain, and the United States, or directly to homeowners in Australia, Canada, and France. However, evidence about the effectiveness of these programmes is scant and mixed. Evaluations of the Low-Income Housing Tax Credit in the US indicate that it has effectively expanded the share of affordable housing within the housing stock. However, they also show a substantial crowding-out of housing investment by other non-subsidised investors, which reduces the effectiveness of such programs in bolstering the overall housing supply and affordability (Malpezzi and Vandell, 2002<sup>[47]</sup>; Eriksen and Rosenthal, 2010<sup>[48]</sup>; Baum-Snow and Marion, 2009<sup>[49]</sup>). Additionally, in France, studies show that for every EUR 10 spent on the *Pinel* tax incentive scheme, renters benefited from a EUR 1 reduction to their rent. Though this was partly attributed to the design of the provisions, which established a maximum rent per square meter at the regional level, overlooking the variations within the regional housing markets. Moreover, given low profitability of rental housing projects with below-market prices, private investors may locate developments in areas where demand and costs are low, creating concentration of low-cost housing, and increasing segregation (Deniau and Krieff, 2019<sup>[50]</sup>; OECD, 2022<sup>[41]</sup>; OECD, 2023<sup>[40]</sup>). Therefore, if such policy is maintained, it should be closely monitored and evaluated.

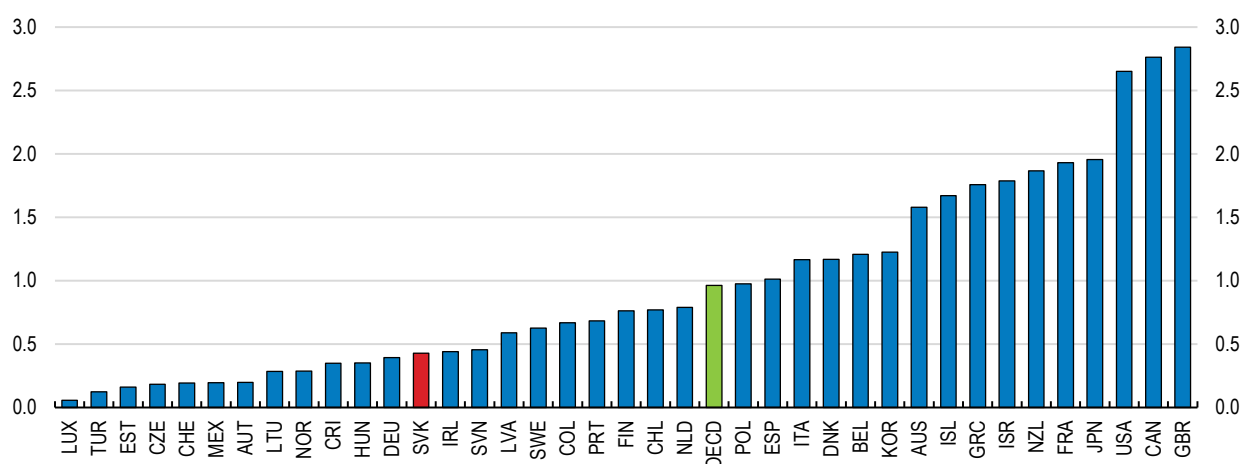
### *Reforming recurrent immovable property taxes to raise efficiency and equity*

Revenues from recurrent taxes on immovable property are low: they only represent 0.5% of GDP and 1% percent of total tax revenues, much lower shares than in other OECD countries (Figure 12). Recurrent taxes on residential property are considered more economically efficient than many other taxes and have empirically been found to be comparatively less harmful to economic growth (Akgun, Cournède and Fournier, 2017<sup>[51]</sup>; Cournède, Fournier and Hoeller, 2018<sup>[52]</sup>). Moreover, they can help stabilise fluctuations in the housing market and slow down house price increases as they get capitalised into house prices over time (Cournède, Sakha and Ziemann, 2019<sup>[53]</sup>). Finally, higher recurrent taxes on immovable property, by raising costs, can serve as a deterrent for excessive ownership fragmentation (see above). This may incentivise the sale of the property or, should the law make such provisions, lead to the appropriation of the property by the municipality or the State if property taxes remain unpaid for some time, as it is for example the case in France.

Increasing revenues from recurrent taxes on immovable property would create room to lower more distortive taxes. As previous Surveys and OECD work have argued (Remeta et al., 2015<sup>[44]</sup>; OECD, 2022<sup>[54]</sup>), Slovakia could benefit from a reform shifting some of the tax burden from less economically efficient taxes, such as taxes on labour income and social security contributions which are especially high, toward recurrent taxes on residential property (see the 2024 OECD Economic Survey of the Slovak Republic (OECD, 2024<sup>[11]</sup>)).

**Figure 12. Revenues from recurrent taxes on immovable property are low**

Revenue from recurrent taxes on immovable property, % of GDP, 2022 or latest available year



Note: OECD unweighted average.

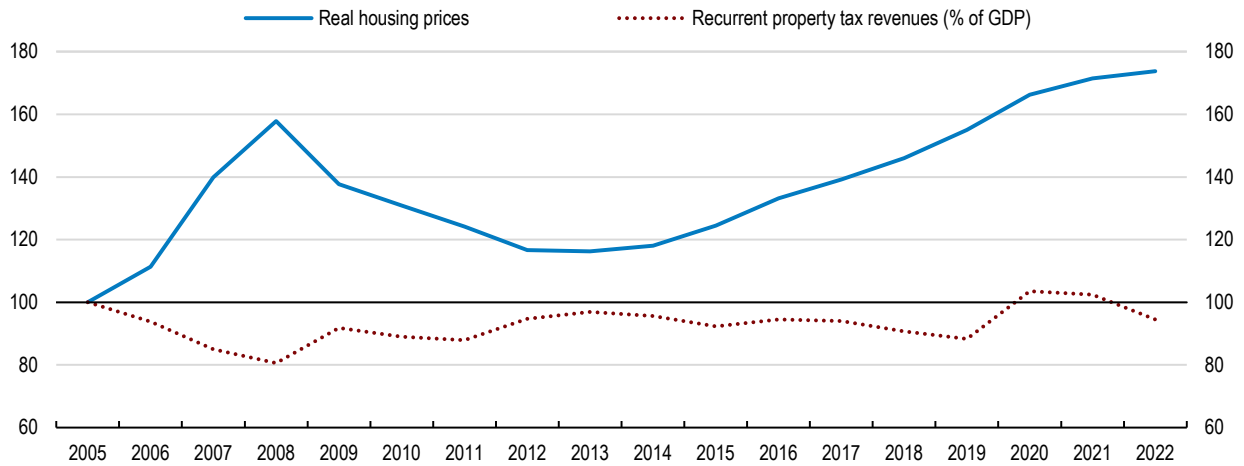
Source: OECD Revenue Statistics database.

Moreover, the design of the recurrent residential property tax is harming equity and efficiency. Slovakia is one of very few OECD countries (together with Czechia, Israel and Poland) that bases recurrent taxes on immovable property on the area of the property rather than its estimated market value. A system based on the property area is less accurate in accounting for taxpayers' housing wealth, as it disregards other physical characteristics of the property which are key determinants of its value, such as type, quality, number of rooms, age, presence of a garden or a balcony. Additionally, in an area-based property tax system, tax revenues are not responsive to changes in the housing cycle. This limits its effectiveness as a stabiliser of fluctuations in the housing market and reduces long-term sustainability of fiscal policy. In fact, recurrent property tax revenues have remained relatively stable over time, despite increasing house prices (Figure 13).

The recurrent residential property tax should be based on regularly updated market values. Taxing properties based on outdated values can make the tax regressive as houses that experience large increases in market values become relatively under-appraised and under-taxed, especially in the absence of capital gains taxes on housing. Moreover, homeowners would have an incentive to remain in undervalued homes, thereby further reducing residential and labour mobility (OECD, 2022<sup>[41]</sup>).

**Figure 13. Revenues from recurrent property taxes have not kept up with the increases in house prices**

Index, 2005 = 100



Note: The property tax indicator refers to all recurrent property taxes collected and not just those levied on household assets.

Source: OECD Price Statistics database; and OECD Revenue Statistics database

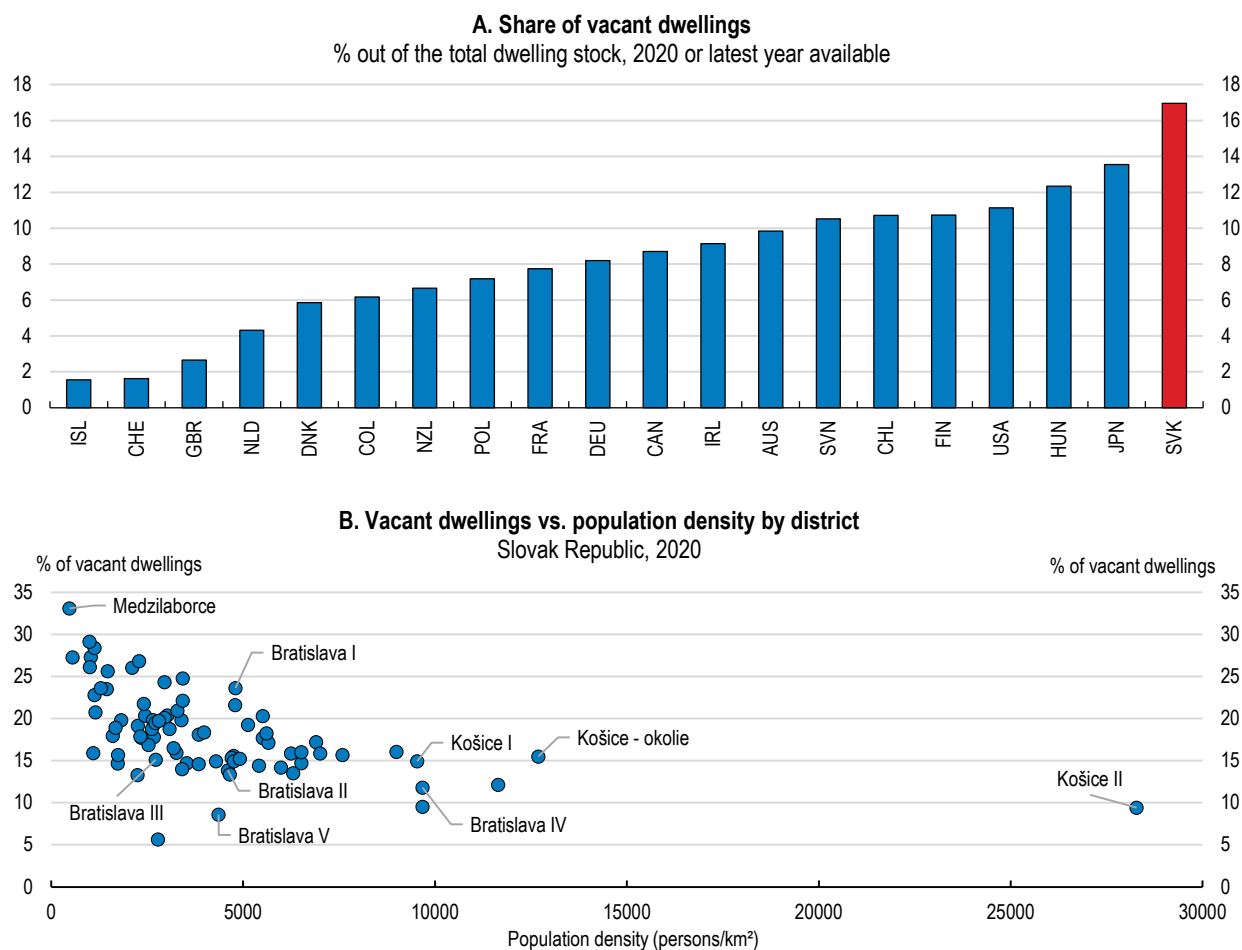
Regularly updating the value of residential properties can be administratively costly, but digitalisation can limit the burden on the administration. The most common method for property evaluation in OECD countries is based on sales comparisons, which use detailed data on recent sales for properties with similar characteristics, adjusting for property differences (e.g., age, quality, location, size, property type, etc.). As this method heavily relies on the availability of data, it requires an upfront investment to improve land and building registries so that all information on property is accurate and updated. Regular re-appraisal of property values is also most efficient when digitalised, for example through computer-assisted mass appraisals (CAMA), as it is done in the Netherlands (Box 3). Such methods provide a large number of property valuations in a short amount of time while ensuring better accuracy and consistency (OECD, 2021<sup>[55]</sup>).

Particular attention should be given to the administration of the recurrent tax on residential property. The high-quality data and technical capacity requirements to perform regular and accurate property appraisal could be an obstacle for local governments with limited resources. A higher level of government, such as regions, could therefore be better equipped to undertake such tasks. Alternatively, local governments should be provided with adequate financial and technical capacity, while smaller local governments with more limited administrative capacity could strengthen cooperation to reduce costs, for example with joint municipal offices arrangements, as in the United States (OECD, 2021<sup>[55]</sup>). The central government should also supervise the process in order to guarantee uniform quality standards and uniform valuation across all municipalities. The Netherlands is an example of a successful decentralised and efficient property tax administration. The Dutch model combines a decentralised process to establish annual market value via the use of a mass appraisal system, with the central government ensuring uniform procedures and quality standards (Box 3).

A property value-based recurrent tax on residential property can also encourage a more efficient use of the current housing stock. In 2021, vacant dwellings represented 17% of the housing stock in Slovakia, a relatively high share (Figure 14, panel A). While on average districts with low population density show higher vacancy rates, non-negligible vacancy rates are also present in districts with high population density, such as Bratislava and Košice (Figure 14, panel B). Vacancies reduce the supply of dwellings available for purchase or rent, putting additional upward pressure on house prices, especially when located in highly demanded areas. Gradually transitioning to a higher recurrent tax on residential property based on regularly updated values would help address this issue, as it would increase the cost of keeping

properties unused, especially in high-demand areas with higher property values. Additionally, the authorities could consider introducing specific taxes on vacant dwellings (on top of regular property taxes), following the examples of some municipalities in Australia, Canada and France. These taxes have proven to be successful in reducing vacant homes; however, they necessitate thorough monitoring and compliance checks, which can add to administrative costs (Segú, 2020<sup>[56]</sup>; OECD, 2022<sup>[41]</sup>).

**Figure 14. The share of vacant dwellings is relatively high**



Note: Data for the Slovak Republic are based on the Population and Housing Census 2021 and refer to the following categories of dwellings: accommodations for single family houses, residential buildings and other residential buildings.

Source: OECD Affordable Housing database; and Slovak Republic's Population and Housing Census 2021.

### Box 3. A successful example of property tax administration in the Netherlands

The Netherlands offers a successful example of nationwide property tax administration. In 1992 the administration of property taxes has been decentralised from the central government to the 399 municipalities. Local authorities are responsible for activities such as the maintenance of fiscal cadastres, property valuation, tax collection and tax rate setting, while the central government is responsible for controlling and levelling the quality of the tax administration across the country. Properties are re-valued every year by local governments, but they are subject to central government oversight. The central government examines the uniformity of the valuations performed by local governments through the National Valuation Board, so that values are comparable across municipalities.

Residential properties are typically assessed using the sales comparison approach, which is implemented through the Computer-Assisted Mass Appraisal (CAMA) system. Mass valuations involve the utilisation of various data sources, including the System of Register Database, information from real estate advertisements, specific data collected by municipalities and from interactions with taxpayers through online questionnaires or in the form of complaints and appeals (e.g., improvements' quality and maintenance). Communication with taxpayers is mostly online (80% online and 20% by mail).

Source: (OECD, 2021<sup>[55]</sup>)

#### *Achieving fairness and political acceptance of a property tax reform*

Property tax reforms can be highly unpopular, especially in countries like Slovakia where owner-occupied housing is widespread, and many property owners are low-income households. Attempts to reform the recurrent immovable property tax in the past have faced strong political opposition. Switching to market-based property valuations could imply a steep rise in the tax bill for many households, especially since houses and apartments were often acquired cheaply during the privatisations in the 1990s and went through several waves of renovations that potentially increased their values (Blöchliger and Diagne, 2023<sup>[57]</sup>).

However, several options in the tax design could be considered to improve political acceptance. Several OECD countries have successfully implemented property tax reforms. For example, in 2017 Denmark implemented a reform to align cadastral values of land and properties to market values. To alleviate the effects of the increase in tax obligations, the reform was phased in gradually and accompanied by lower statutory tax rates, a tax rebate, and the deferral of payment to after the sale of the property. Similarly, Ireland introduced a property tax reform to align cadastral values to market values and attenuated the impact on taxpayers by introducing a tax deferral option. Such experiences suggest that a gradual phasing-in of the taxes on residential property and tax deferrals, for example paying the tax only when a house is sold or bequeathed, can increase acceptance and help avoid an abrupt hike in tax bills that would hurt homeowners (see Box 4). Additionally, allowing for paying the tax in instalments, as is done in Canada, Denmark, or the United States, may help households to overcome liquidity constraints and improve tax compliance. Furthermore, progressive taxation, by setting progressive tax rates or by granting exemptions or credits, can protect low-income households and thereby bolster fairness and acceptability of increased property taxation. For example, a flat-amount exemption would have a progressive impact because lower-income households tend to have less valuable properties, so the relief accounts for a larger share of their home values. However, tax reliefs should be targeted and carefully designed to avoid introducing distortions in the ownership of different asset categories and to avoid benefiting owners of low-valued properties with high income or wealth (OECD, 2022<sup>[41]</sup>). Finally, progressivity should be assessed in a comprehensive reform package shifting the burden from labour to property and environmentally harmful activities, which has the potential to reduce distortions to economic growth and foster political support, as discussed in the 2024 OECD Economic Survey of the Slovak Republic (OECD, 2024<sup>[11]</sup>).

#### Box 4. Property tax reforms in Denmark and Ireland

##### Denmark

In 2017, a major property tax reform was passed which entailed a reassessment of properties' fair market values. As part of this reform, property values have been updated biennially since 2020, and new tax liability assessments began to be issued in 2021. These reassessments were expected to result in notable increases in tax obligations, especially in areas where house prices had risen considerably since properties had not been revaluated for nearly two decades (tax freeze). In order to mitigate the impact of rising tax liabilities and gain political support, the government incorporated the property value update into a comprehensive property tax reform. As part of this reform, the statutory property tax rate was reduced from 1% to 0.6%, and a surtax specifically targeting high-value properties was implemented. To address liquidity concerns of property owners, homeowners whose overall property taxes increased with the new system were granted a tax rebate in 2021. Additionally, they had the option to defer the increase in recurrent property tax liabilities until the sale of the property. The comprehensive approach to Denmark's property tax base reform has contributed significantly to its political success. While measures compensating adversely affected taxpayers will impact tax revenues in the short run, the reform increases equity and the future revenue-raising potential of the tax and is expected to reduce house price volatility in the long run.

##### Ireland

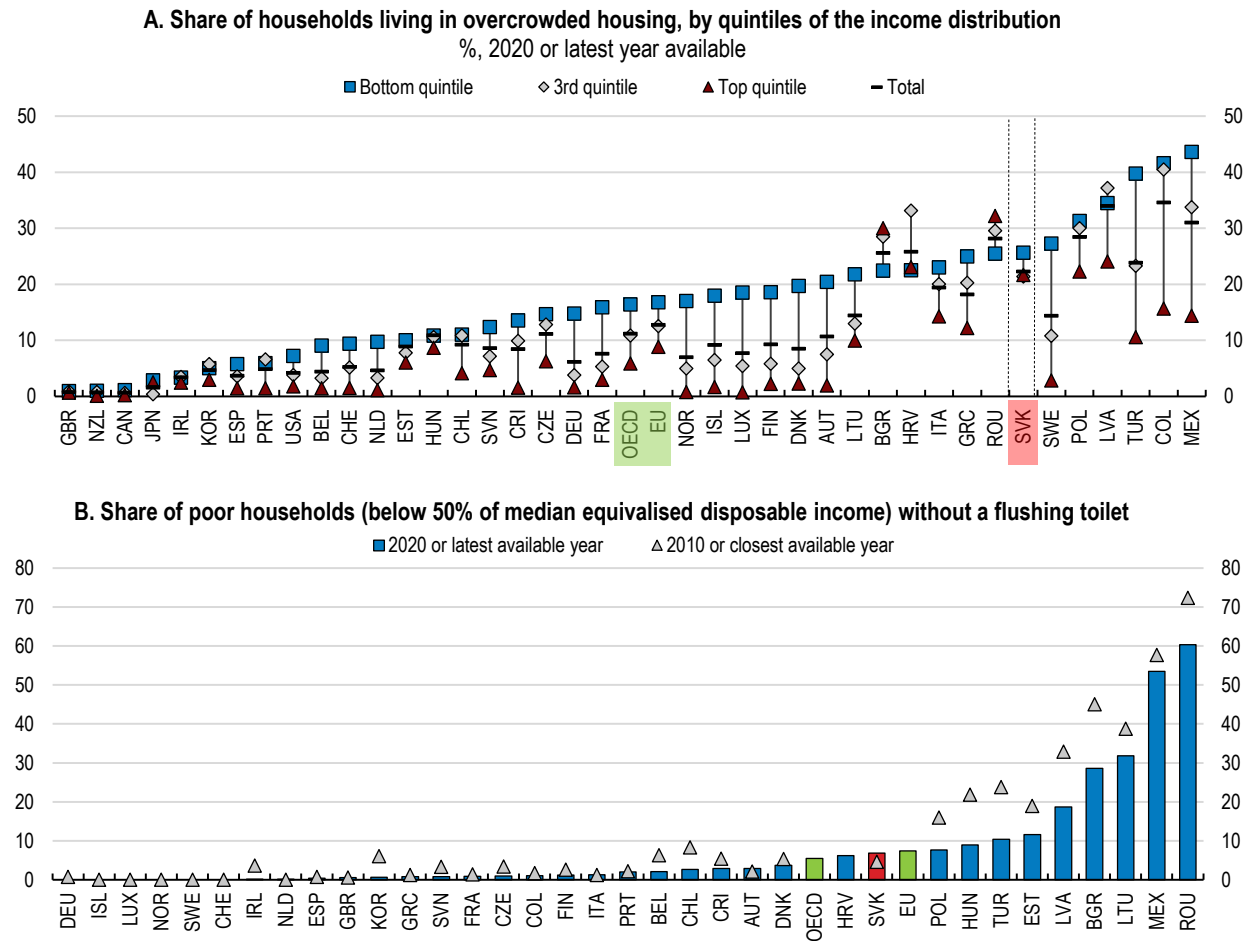
A local property tax was introduced in 2013, but property values remained outdated, and properties constructed after 2013 were not subject to the tax. In 2021 the government introduced a reform of the local property tax that reduced tax rates, expanded the tax base, and required taxpayers to update their self-assessed property valuations every four years. Additionally, previously exempt houses constructed since 2013 were brought into the scope of the tax. The reform was expected to increase the recurrent property tax burden for about a third of taxpayers. To support lower-income households, the reform broadened eligibility to property tax deferrals and lowered the interest charged on deferred tax payments.

Source: (OECD, 2022<sup>[41]</sup>)

### Enhancing housing inclusiveness

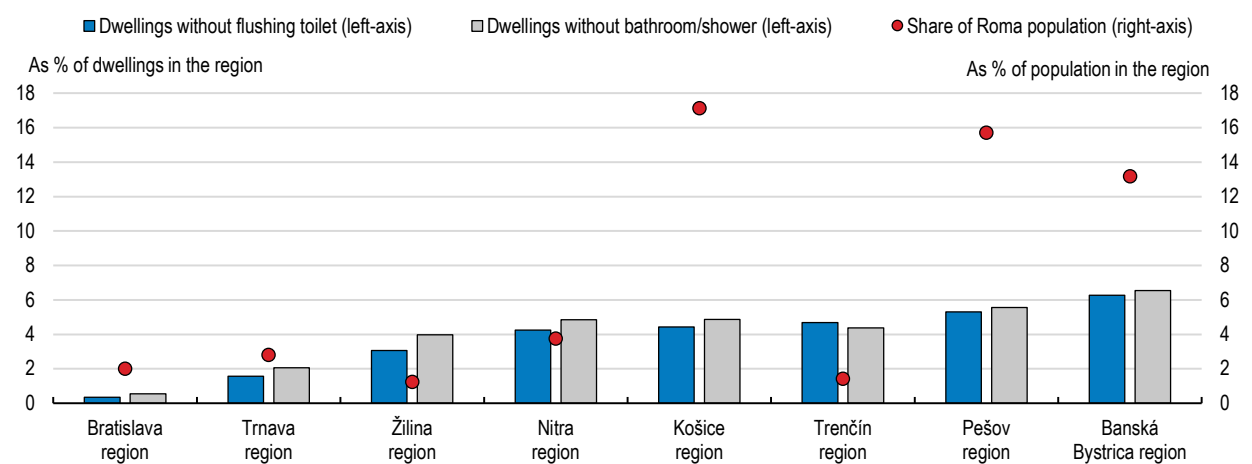
Without government intervention, private markets are not able to provide housing at accessible prices for all (Quigley and Raphael, 2004<sup>[58]</sup>; OECD, 2022<sup>[42]</sup>). In Slovakia, about a third of low-income households are overburdened by housing costs, and many households live in poor quality housing conditions, such as overcrowded dwellings and dwellings that lack basic living facilities (Figure 15). Living conditions in some parts of the country, especially in the East, are of lower quality than in other regions. Such regional disparities are partly linked to the presence of a higher concentration of Roma settlements, which suffer from particularly dire living conditions (Figure 16). Also, homelessness has reached an alarming dimension over the past ten years. Despite improvements, government support remains insufficient to effectively tackle these challenges. There is scope to expand targeted public support for the most vulnerable, scale up successful local initiatives nationwide, and expedite the implementation of planned policies.

**Figure 15. Many low-income households live in inadequate housing**



Source: OECD Affordable Housing database.

**Figure 16. Some regions and population groups suffer more from poor living conditions**



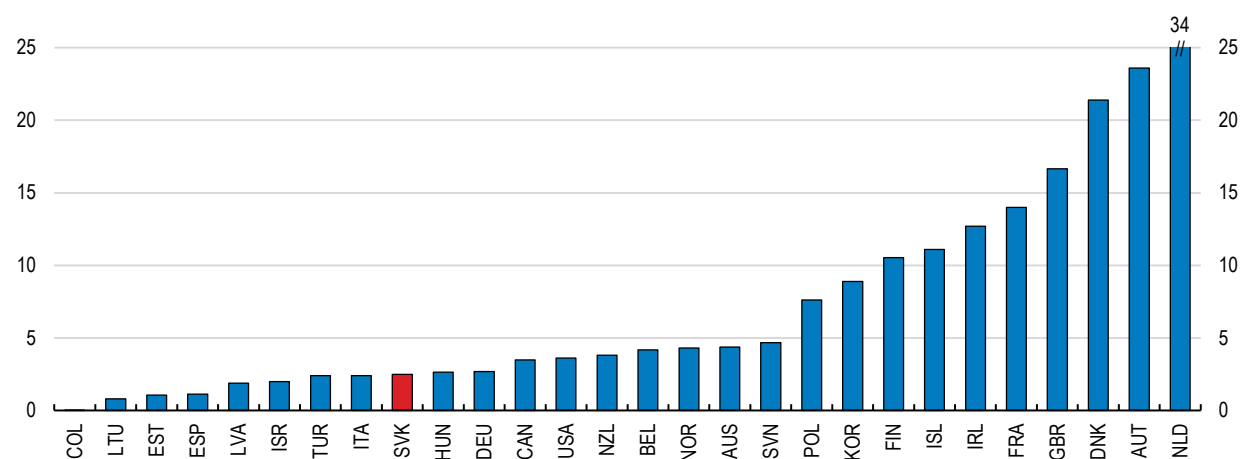
Source: Slovak Republic's Population and Housing Census 2021; Sika P, Vidová J, Rievajová E., Regional View on Housing of the Marginalised Roma Population in the Slovak Republic, Sustainability (2020), 12(14):5597, <https://doi.org/10.3390/su12145597>; OECD calculations.

## Expanding the stock of social and affordable housing

Slovakia faces significant shortages in the supply of social rental housing. The stock of social rental housing is relatively low, representing only 2.5% of the total housing stock (Figure 17). High demand for social rental housing facing limited supply results in long queues to access dwellings with regulated rents, in some municipalities. For example, in the municipality of Bratislava there are about 600 households waiting for social housing with an estimated waiting time of 6 years.

### Figure 17. The stock of social rental housing is low

Social rental dwellings, as % of the total housing stock, 2020 or latest available year



Source: OECD Affordable Housing database and Slovak Republic's Population and Housing Census 2021.

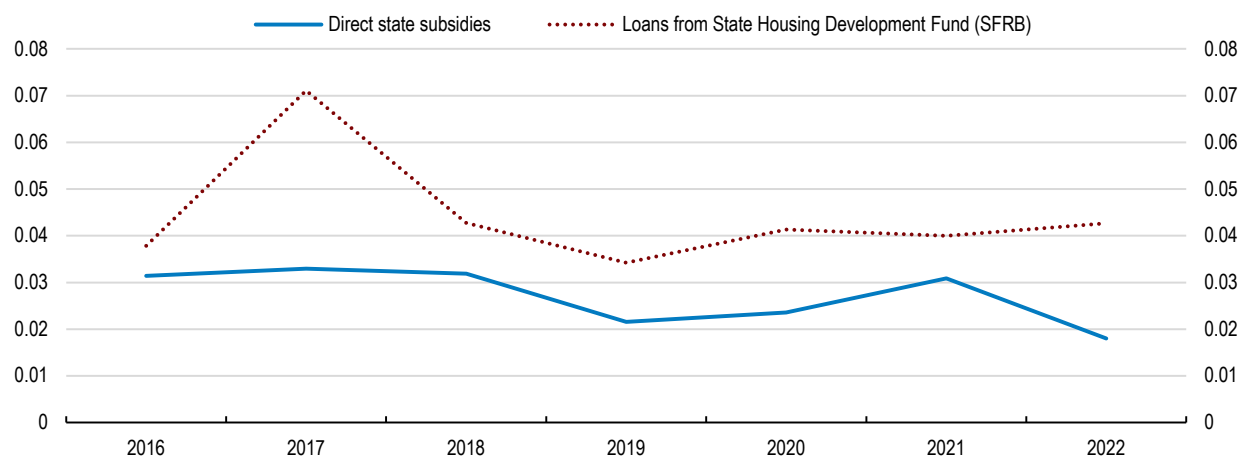
Public resources allocated to the construction of social rental housing are low. In 2022, expenditure for the construction (or acquisition) of social rental housing represented only 0.06% of GDP (Figure 18). In comparison, Austria – a country often considered a good example for providing good-quality social housing, promoting social diversity within social housing, and achieving affordability – spent around 0.25% of GDP in 2020 (OECD, 2020<sup>[3]</sup>). Additionally, allocations of the state budget for the provision of social rental housing have been decreasing over time (from EUR 65 million in 2017 to EUR 45 million in 2022).

Local governments face several barriers to the development of the social housing stock. Municipalities are responsible for providing and managing the social rental housing stock. They receive financial support for construction or acquisition of social housing via subsidies and long-term loans with favourable conditions from a dedicated state fund, the State Housing Development Fund (SHDF) (Box 5). Even though the combination of loans from the SHDF and subsidies can cover up to 100% of the construction or acquisition costs, municipalities struggle to find resources to cover the difference between operational costs (maintenance, repairs, administration, etc.) and revenues from the management of social rental housing. Moreover, municipalities face a shortage of municipal land available for the development of social rental housing, substantial bureaucracy connected with filing applications for obtaining support, and unclear procedures related to public procurement of rental apartments which, in case of misconduct, lead to financial penalties. Stigma associated with social housing can also contribute to low support from the local community, which leads to a lack of willingness of local authorities to invest in such activities (MoF, 2020<sup>[59]</sup>). As a result, withdrawal of funds for construction or acquisition of social housing from the dedicated SHDF was only equal to 30% of the available resources.



**Figure 18. State support for social rental housing is low and has decreased over time**

Direct state subsidies and granted loans from the SHDF, as % GDP



Note: Loans from SHDF are partially funded by the State.

Source: Ministry of Transport of the Slovak Republic.

Some progress has been made recently to incentivise municipalities to invest in social rental housing, but the central government could be more involved in supporting the expansion of the sector. The adoption of the amendments to the Public Procurement Act in 2022 (see the 2024 OECD Economic Survey of the Slovak Republic (OECD, 2024<sup>[11]</sup>)) should help speed up the procurement of rental housing by local authorities. Moreover, recent regulatory changes have allowed municipalities to use loans at favourable conditions from the SHDF to buy land for developing social housing, which is welcome. In addition, the central government could consider setting minimum shares of social housing within municipalities, as for example is legislated in France. Alternatively, municipalities could require that new development projects assign a share of their flats to social housing, following the example of London, New York, and Vienna, and support the construction of such apartments through loans at favourable conditions from the SHDF (OECD, 2023<sup>[40]</sup>).

The central government should set clear targets for the development of social housing units in close collaboration with municipalities, and authorities should ensure adequate funding from the central and municipal government budgets for their construction and operation. The latest housing strategy proposes to gradually raise the total spending for the development of social rental housing and the renovation of residential buildings to 0.5% of GDP per year by 2030 (Ministry of Transport and Construction, 2020<sup>[8]</sup>). While this is generally welcome, it is important to set and periodically review specific binding targets for social housing units to establish funding needs. This should be done in consultation with the municipalities that are best placed to assess the needs of new social housing construction. Slovenia, for example, developed a tool (*Priority Development Areas for the Housing Supply, PROSO*) to quantify housing needs in different parts of the country and guide housing investment at national scale in strict collaboration with municipalities. The authorities are then obliged to allocate 60% of resources from the Housing Fund of the Republic of Slovenia according to the needs identified in the PROSO. The remaining 40% of investments are allocated on a needs' basis assessed through applications submitted by municipalities to the Fund (OECD, 2023<sup>[60]</sup>).

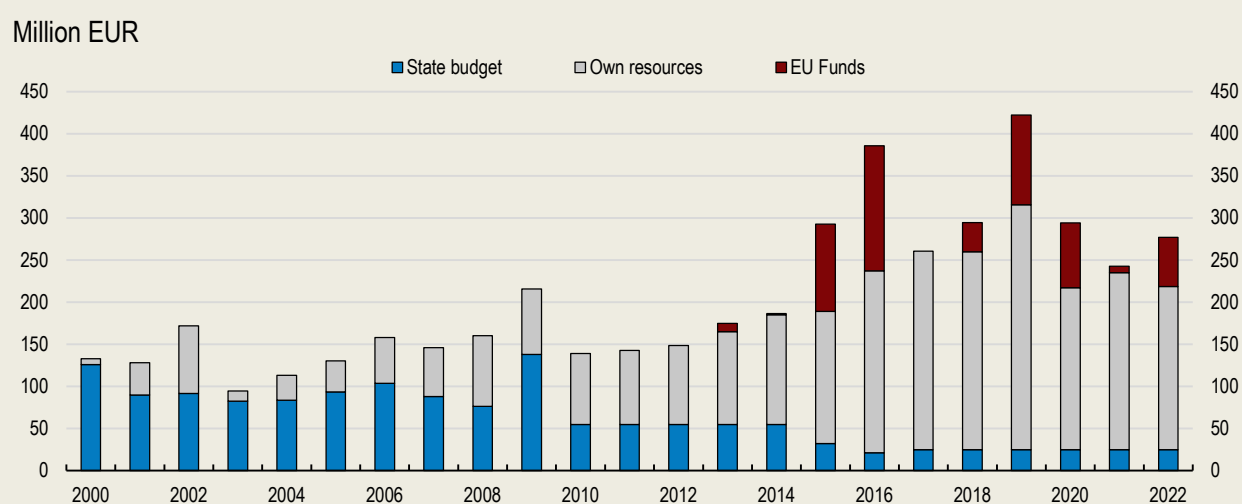
At the same time, the government could consider options to increase revenues from the management of social housing and reduce construction costs, without compromising affordability and the quality of the new housing stock. The maximum amount of annual rent in social housing units, set by the Ministry of Finance, is equal to 5% of the eligible maximum acquisition costs of the dwelling. This does not allow rents to evolve according to economic conditions, making it difficult for municipalities to finance operational costs. For instance, in Bratislava the maximum average monthly regulated rent is approximately EUR 1 to 3 per

square meter, while monthly operational costs amount to EUR 4 to 5 per square meter, making it unattractive for the municipality to invest in social housing. The government could consider allowing reasonable increases in regulated rents, for example by indexing them to inflation, as is done in other OECD countries, such as Denmark and Slovenia. To ensure that rents remain affordable, supplementary financial support targeted to the most vulnerable households in the form of monthly allowances (see below) could be introduced. In Slovenia, for example, in addition to the reduced rent level, the government sets a supplementary allowance for vulnerable households according to the difference between the reduced rent and the minimum income threshold. In light of the rising prices of building materials in recent years, the authorities could also consider innovative options to lower construction costs. In Germany, for example, the Ministry of Interior and Construction worked together with construction and architect associations to identify providers of serial and modular constructions for affordable housing projects (OECD, 2020<sup>[38]</sup>).

### Box 5. The State Housing Development Fund: a valuable instrument for the development of social rental housing and housing renovations

The State Housing Development Fund is a key instrument of the Slovak Republic's housing policy. It was introduced in 1996 to respond to growing housing needs following the significant fall in housing construction in the post-Communist period. The fund is administered by the Ministry of Transport. It supports the expansion of both homeownership and rental housing and improvements to housing quality. The Fund provides favourable long-term loans to municipalities (and public not-for-profit organisations) for the construction of social rental housing and affordable private rental housing, financing up to 100% of acquisition costs for a term of up to 40 years. Construction of dwellings needs to be completed within 24 months of the loan agreement. Additionally, loans can be accessed by individuals to finance the acquisition of a home (for young couples meeting certain income requirements). The Fund is also a key financing tool for renovation works to improve thermal insulation and energy efficiency of the dwelling. The Fund operates as a revolving fund: it uses public funds and its own funds to support the construction and renovation of residential buildings via favourable loans. The loan repayments and interests are then reinvested in new loans. Over time, the Fund has mostly become self-sufficient and has benefitted from EU structural funds, thus progressively reducing the contribution of the State budget.

Figure 19. Sources of funding for the State Housing Development Fund



To reduce the burden on municipalities, partnerships with limited- and non-profit housing associations could be encouraged. Experience from other countries, such as Austria and the Netherlands, shows that

housing associations are key actors in the delivery and management of the social and affordable housing sector. Non-profit associations, with their deep community connections and expertise, can also be well positioned to not only provide housing but also deliver vital social services that enhance the living conditions of tenants (Bratt, 2007<sup>[61]</sup>; MoF, 2020<sup>[59]</sup>). While the non-profit sector in Slovakia has limited experience in managing the social housing stock, there have been some successful initiatives, such as in the field of integration of marginalised Roma communities (see below).

Conditions for eligibility to social rental housing could be reformed to ensure wider access to vulnerable groups. Except for the statutory requirements, which mandate that households' income must not exceed three times the substantial minimum (or four times in the case of individuals with disabilities and single parents), the eligibility criteria for accessing social rental housing are determined by municipalities. While the statutory requirements based on income are not stringent to allow access to middle-income households and promote social mix (more than 60% of individuals meet such conditions according to the Ministry of Transport), the requirements of municipalities can sometimes be overly restrictive. For example, the pre-payment of a (maximum) deposit of six-month rent, permanent residence in the municipality for some minimum duration, and absence of debts/arrears owed to the municipality, creating barriers to accessibility for certain vulnerable groups (MoF, 2020<sup>[59]</sup>). Authorities could therefore consider relaxing these municipal requirements in conjunction with efforts to expand the housing stock. Moreover, eligibility criteria based on income and social conditions should be regularly reassessed to ensure prioritised protection to the most vulnerable. At present, this process occurs every three years (after which the sitting tenants are replaced with other eligible applicants if they no longer meet the criteria), but authorities could consider reassessing eligibility conditions more frequently (e.g., yearly). Additionally, it is crucial that eligibility for social housing is portable across cities and regions to ensure low-income workers' mobility.

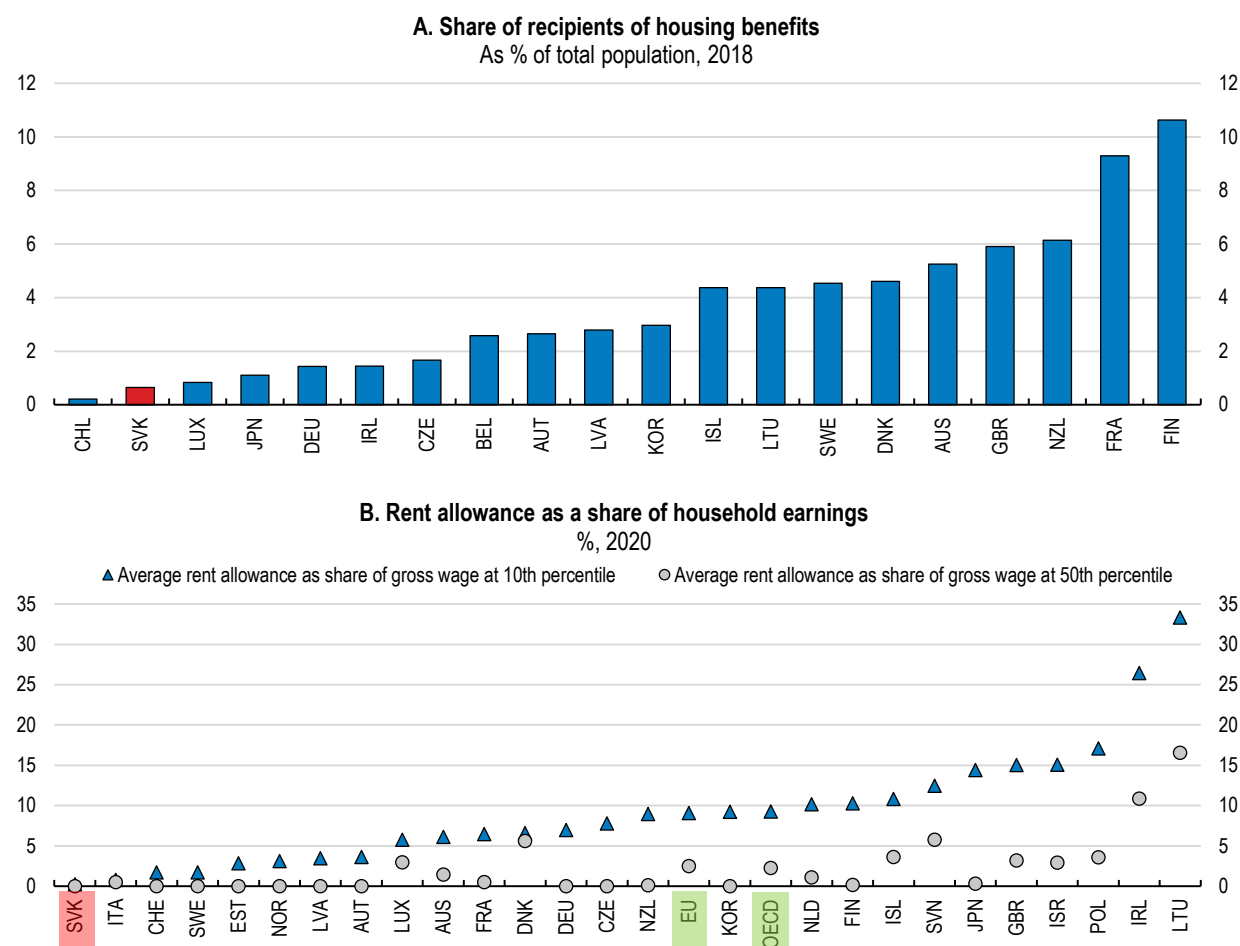
A broad social mix in social rental housing could be achieved with improved urban planning. Social housing is often developed far from job centres and without easy access to public transport (MoF, 2020<sup>[59]</sup>). This can aggravate segregation, result in deepening poverty and crime, and exacerbate stigmatisation. Improved urban design to better connect social housing to the city's core would help to integrate residents and support their inclusion. This was a key element of successful housing policy in Korea, where measures to boost housing supply were taken in conjunction with improved urban planning. In the early 1980s, amid a pressing housing shortage, the central government allocated large plots of developable land for housing construction. Public developers were given authority to acquire non-urban land in the outskirts of the main cities through expropriation. The gains from land development were then used to finance the provision of affordable low-income housing as well as on-site infrastructure and transport connecting the newly built towns to cities in the capital region. This programme was successful in delivering more than 2 million new high-quality housing units between 1988 and 1992, of which 250 000 units were provided to poor urban households (Kim and Park, 2016<sup>[62]</sup>).

### ***Reforming housing allowances to make them more effective***

In Slovakia housing allowances are low, linked to strict eligibility conditions and received by a very limited number of people (Figure 20). Housing allowances are provided to low-income homeowners and renters who qualify for "material need" assistance. However, they are limited in amount and scope, reaching only a small portion of those in need. The average share of housing allowance is only 0.3% of the (gross) wage for a household at the 10<sup>th</sup> percentile of the wage distribution, significantly lower than the 9.2% OECD average (OECD, 2020<sup>[3]</sup>). Additionally, in contrast to most OECD countries, the amount does not sufficiently account for the household's composition and size (the amount of the housing allowance is EUR 58.5 per month for singles or EUR 93.4 per month for households with 2 or more persons). Furthermore, conditions to receive such allowances are very strict. To qualify for "material need" assistance the income of household members must be below the subsistence minimum (EUR 234.34 per month in 2022), and the household needs to be eligible for other specific benefits (maintenance for children and spouses, compensation income for temporary incapacity). In addition, households need to prove that they own or

lawfully occupy the dwelling they live in and have no rental arrears. This condition is particularly difficult to meet for some population groups, such as the Roma, who do not always possess a legal title to the land where their residence is located. Accelerating the formalisation of property rights in Roma settlements as suggested below would help them meet such eligibility condition.

**Figure 20. Housing allowances are low and accessible to only few households**



Note: In Panel A, data for Austria refer to the Vienna region only.  
Source: OECD Social Benefits Recipients database; and OECD Affordable Housing database.

In line with other OECD countries, eligibility conditions for housing allowances should be based on income, size, and composition of the household, as well as the amount of housing costs. These criteria should then also be used to determine the amount of support.

The authorities have recently taken steps to revise eligibility conditions and increase the allocated amount for housing allowances. Since July 2023, eligibility conditions and the amount of housing allowances have been linked to the number of household members. Additionally, the amount of the benefit has been indexed to inflation to protect vulnerable households from the rise in the cost of living. At the same time, a proposal to introduce housing allowances as a separate social benefit, no longer linked to the benefits for households in “material need”, was put forward. These developments are welcome.

Eligibility conditions should be carefully and regularly assessed to ensure that housing allowances are accessible to those most in need. In light of extended waiting times for accessing social and affordable housing (see above), and considering the time required to expand the social housing stock, the authorities could also consider prioritising housing allowances for households on the municipal waiting list for social housing. This would ensure that these households have the means to afford rental payments while waiting

for a permanent housing solution. A similar scheme is in place in Belgium (“*Vlaamse Huursubsidie*”) and Lithuania (“*Busto nuomos mokescio kompensacija*”). Such a scheme provides public support to eligible households that fulfil income criteria to rent a unit in the private rental sector while they wait for social housing (OECD, 2023<sup>[40]</sup>).

Efforts to expand housing allowances should be taken in conjunction with efforts to improve the overall responsiveness of housing supply. Well targeted and adequate housing allowances have the potential to reduce (post-transfer) income inequality and spatial segregation. Additionally, in contrast to social housing with non-portable rights, housing allowances are considered not harmful to residential and job mobility. However, allowances support housing demand and, where supply is rigid, may have the unintended consequence of putting upward pressure on house prices and rents, benefitting landlords who capture a significant share of the subsidy through increased rents (OECD, 2021<sup>[17]</sup>; Chapelle et al., 2023<sup>[63]</sup>). To benefit from their redistributive capacity, the authorities should therefore simultaneously boost efforts to improve housing supply responsiveness.

### ***Improving living conditions for the Roma population***

The Roma community in Slovakia – one of the largest in the EU, accounting for 7-9% of the total population – suffers from precarious living conditions. A large share of Roma experience housing deprivation, with 86% of Roma families living in overcrowded dwellings that often lack basic facilities, such as access to tap water and basic sanitary facilities (Figure 21). Many do not have sufficient income to build or buy adequate housing and live in informal houses, often made of wood, soil, mud, or other materials, and that do not meet construction standards (Sika, Vidová and Rievajová, 2020<sup>[64]</sup>).

For historical reasons many Roma live in informal settlements without legal title to the land. During the Second World War and the communist period many Roma were relocated to state-owned land. With the transition to a market economy, state-owned land was returned to previous owners, resulting in a high share of Roma settlements being located on illegal plots (OECD, 2019<sup>[65]</sup>). The lack of title to the land has severe consequences for the living conditions of the Roma, as this does not allow municipalities to provide basic infrastructure, such as water pipelines, electricity, sewerage or even roads. Moreover, the lack of title leads to evictions and homelessness (Sika, Vidová and Rievajová, 2020<sup>[64]</sup>). The lack of formal title also excludes many Roma families from receiving any form of state support, such as housing allowances (see above). Precarious living conditions result in poor health conditions, low educational enrolment and attainment, and high social exclusion.

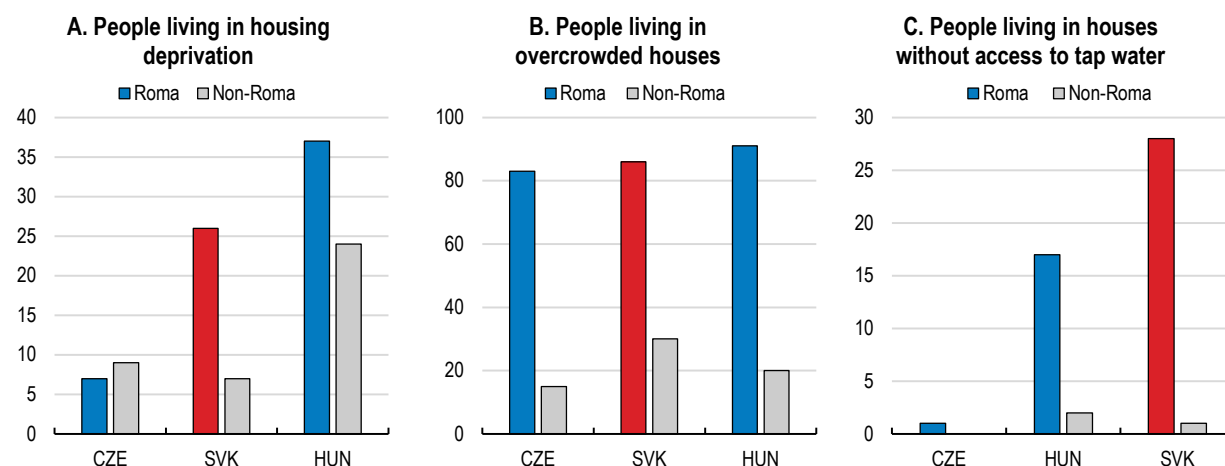
As argued in past Surveys (OECD, 2019<sup>[65]</sup>), the authorities should accelerate policy action to support the formalisation of property rights in Roma settlements. This is a necessary step to limit forced evictions and homelessness among the Roma and to allow municipalities to provide the necessary infrastructure investments to the Roma settlements. The updated Strategy for Equality, Inclusion and Participation of Roma (Office of Plenipotentiary, 2021<sup>[66]</sup>) allocates EU resources to projects that offer technical support to municipalities with Roma communities, to enable them to secure land ownership. Past experience shows that such projects can be successful, but their outcome largely depends on municipal capacity, collaboration between local and central authorities and the personal involvement of members of the Roma community (Box 6) (Kahanec et al., 2020<sup>[67]</sup>).

Public investment in basic infrastructures in Roma settlements needs to be strengthened and construction of good quality housing incentivised. This could be done by expanding the stock of social rental housing (see above) and scaling up successful local projects of assisted housing, such as the *Dom.ov* initiative. This initiative allows families to apply for a micro-loan at favourable conditions for the self-construction of a house. The house is built by family members, under the supervision of a technical expert. Families are assisted in all steps and in communication with the relevant authorities for obtaining the necessary permits. Some EU funds have been allocated to this purpose. However, the lack of technical capacity and resources of local governments delays the implementation of such projects (Kahanec et al., 2020<sup>[67]</sup>). To strengthen

municipalities' effective utilization of these funds, adequate technical support from the central administration should be provided. Additionally, after the end of the EU programming period, these programmes should continue and be funded from the national budget, especially to support Roma settlements with the worst living conditions.

**Figure 21. Many Roma live in precarious conditions with limited access to basic infrastructure**

%, 2021



Note: Data for non-Roma refers to 2020. In Panel A, four dimensions are used to determine housing deprivation: accommodation is too dark, has problems with humidity, has no shower/bathroom inside the dwelling or has no (indoor) toilet. Housing deprivation requires at least one of these dimensions.

Source: European Union Agency for Fundamental Rights (2022), "Roma in 10 European Countries – Main results, Roma Survey 2021".

More efforts are needed to reduce segregation of the Roma community. Providing basic infrastructure to the settlements is a necessary first step to facilitate the integration of the Roma, as it for example improves hygiene conditions and access to schooling. Social mix could also be promoted with the inclusion of mandatory shares of social rental housing in new housing developments for vulnerable low-income households, including the Roma communities among others. For example, in Vienna, London and New York new development projects must assign a small share of their flats to socially disadvantaged groups at reduced rents (see above). Such measures should be coupled with supportive services to help families adapt to the new community (OECD, 2019<sup>[65]</sup>).

#### Box 6. Legalisation of property rights in the municipality of Raslavice (Prešov region)

The municipality of Raslavice – a village with high incidence of Roma population – has been successful in drawing EU funds for Roma inclusion over several years and improving the housing and living conditions of the Roma community. The municipality of Raslavice started in 2010 to sell municipal land at reduced prices of 1 EUR/m<sup>2</sup> to Roma families and to legalise the land where houses were already built. The municipality received expert legal counselling for the land sale and assisted Roma residents with the necessary administrative processes to legalise houses. The municipality also helped build new houses by setting up a municipal social enterprise, mostly employing people from the Roma community, who performed construction works. Today, 90% of the Roma settlement is legalised. This allowed the municipality to provide basic infrastructure to the settlement, such as public water, a sewer system, and an electrical grid. However, residential segregation remains an issue, as most of the legalised land was located within the settlement in a remote area without access to public transport.

Source : (European Commission, 2019<sup>[66]</sup>; Kahanec et al., 2020<sup>[67]</sup>)

### ***Promoting efforts to tackle homelessness***

The number of homeless people has increased significantly in the past decade. According to the latest population census, there were 71 076 people (excluding the Roma) without homes in 2021 (1.3% of the population), compared to only 23 483 in 2011 (0.4% of the population). This increase partly reflects changes in the definition of homelessness in 2021 to include individuals living in inadequate housing in addition to those living on the streets. Comparison across countries is difficult, as homogeneous definitions of homelessness are missing, in addition to many other methodological challenges (OECD, 2020<sup>[3]</sup>).

Until April 2023, a national strategy for preventing and ending homelessness was lacking. Social and housing policy mostly integrated the homeless into more general categories, such as “persons at risk of social exclusion”, or persons “in material need”. Additionally, a specific action plan for ending homelessness was lacking; and, given the strict eligibility conditions of housing allowances and for accessing social housing, only few homeless persons can benefit from the available state support. Moreover, a systematic collection of data at national level to monitor this issue is undertaken only every ten years as part of the population census (the latest in 2021), and the Statistical Office of the Slovak Republic has defined the methodological basis for identifying homeless for the first time during the 2021 Census following international recommendations.

So far, most efforts to address homelessness have been taken at the local level. The municipality of Bratislava, together with local NGOs, has conducted the first thorough census of homeless people in 2016, which led to a strategic and evidence-based approach to address homelessness within the municipality. In 2021, the municipalities of Bratislava and Košice, with the support of a local NGO and EU funds, took the lead in initiating “Housing First” projects. These innovative programs facilitated the relocation of homeless families to social rental housing, accompanied by rent assistance and intensive community support (Ondrušová, Turkovič and Gerbery, 2022<sup>[69]</sup>; Ondrušová and Turkovič, 2022<sup>[70]</sup>). However, these initiatives have been limited in scope – only 9 families were supported in Bratislava and 23 in Košice – as limited financial and human resources at the local level prevent their broader outreach.

Recently, the authorities have taken significant steps to tackle homelessness at a national level. The latest housing strategy stresses the need to intervene to improve housing conditions of homeless people with supported housing pilot projects. In 2021 and in December 2023, the Ministry of Labour, Social Affairs and Family conducted tenders for financial support for affordable housing with elements of housing first, i.e., an assistance approach that prioritises providing permanent housing to people experiencing homelessness before helping them to integrate in social life and apply for jobs. In total, by the end of 2023, the ministry approved 18 projects which will be supported with EUR 4.6 million in funding. In April 2023 the previous government adopted a national strategy for preventing and ending homelessness by 2030, which extends beyond housing solutions, and addresses issues related to healthcare, education, employment, and data collection. The National Concept will be followed by an action plan in 2024 specifying measures to achieve these goals. These are welcome steps, and while implementing the plan the authorities should promote coordination between the central and local governments. Central and local authorities should jointly develop tailored strategies and ensure that the local government has the necessary resources to implement the designed policies. Examples from Denmark and Finland show that adequate support from the central to the local government can effectively help fight homelessness (Box 7). Successful local initiatives could be scaled up to the national level. For instance, following the example of the census in Bratislava, the authorities should enhance the capacity to regularly collect data to enable more regular monitoring of homelessness and to better understand the challenges and needs of different homeless populations.

### Box 7. Coordination between central and local government in fighting homelessness in Denmark

Denmark has consistently prioritised addressing homelessness as an integral part of its national policy agenda since 2009. This commitment involves close collaboration with municipalities to effectively implement the national strategy. In the latest Action Plan, the central government has established partnerships with 24 municipalities, offering various forms of support. This includes conducting assessments to identify gaps in current municipal approaches to homelessness, providing advisory services to assist in the implementation of “Housing First” principles and allocation of funding for pilot projects. Municipalities receive funding either to pilot an innovative approach recommended by the central government or to implement their own solutions. Furthermore, the government is actively developing national guidelines and collecting a compendium of best practices across the country.

Source: (OECD, 2020<sup>[71]</sup>)

### Improving the energy efficiency of the housing stock

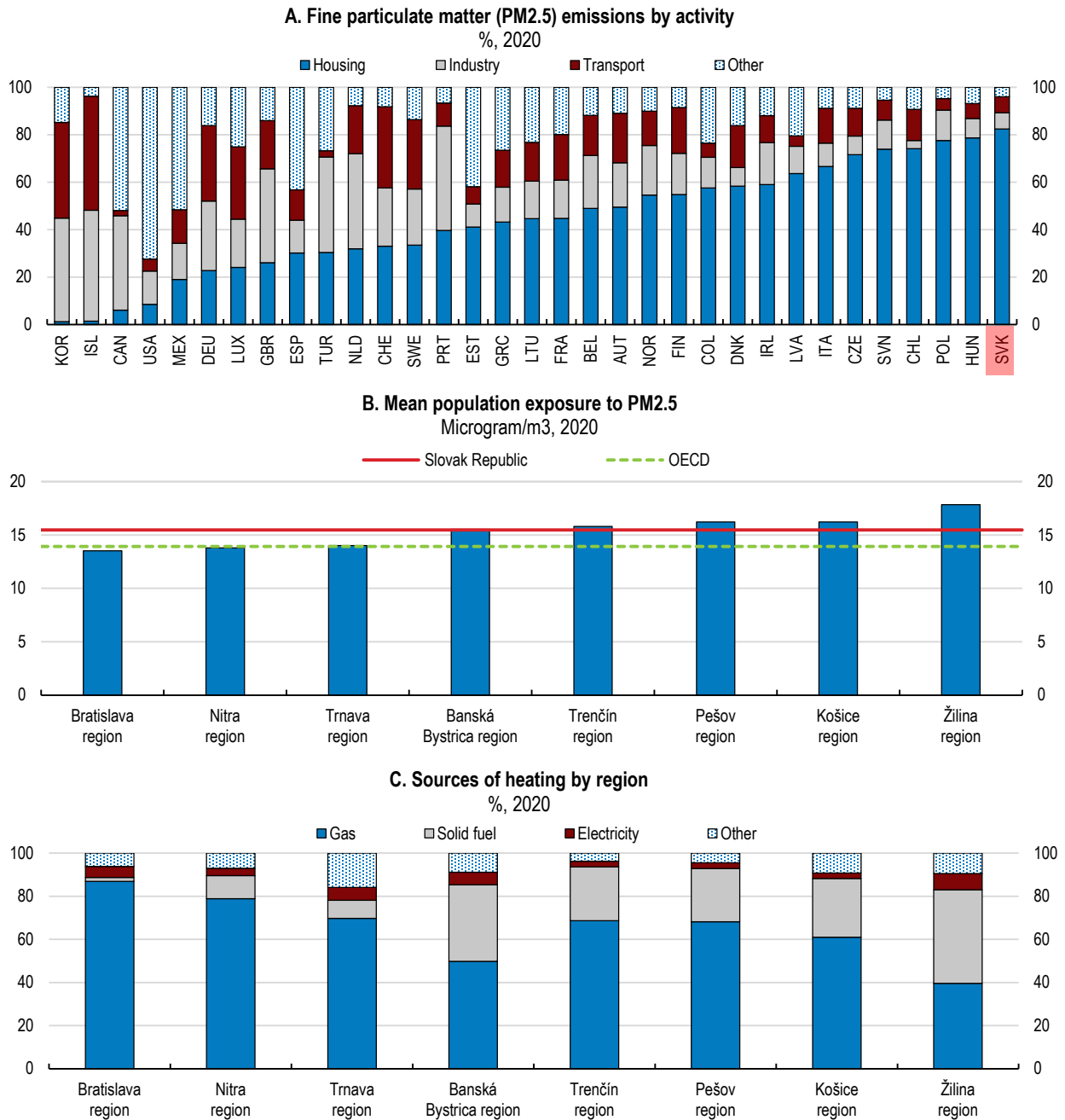
Most of the housing stock is old and energy inefficient. Despite progress, the energy use intensity in Slovak residential buildings is still above OECD average (see above). This contributes to households allocating 8.5% of their budget to cover electricity and gas bills. In comparison, other OECD countries spend on average 3.5% of their budget on these expenses. The situation is particularly dire for the most vulnerable, who often lack the means to keep their dwelling adequately warm, a concern that has been further exacerbated by the rising energy prices following the Russian war of aggression against Ukraine.

Energy consumption for domestic heating is the largest contributor to high air pollution although transport and industry also have significant local impacts. The residential sector accounts for more than 80% of particulate matter (PM<sub>2.5</sub>) (Figure 22, Panel A). Despite progress, Slovakia is still one of the countries with highest exposure to particulate matter pollution, with some regions being more affected than others (Panel B). This is primarily due to the use of inefficient and high-emission domestic heating systems, such as boilers and heaters, and burning of poor-quality fuel such as coal, wood, or waste (Panel C). High air pollution negatively affects health by contributing to the incidence of asthma, cardiovascular problems, and lung disease, and leading to premature deaths. In the most afflicted areas of Žilina and Košice, more than 5% of premature mortality can be attributed to air pollution (IEP, 2021<sup>[72]</sup>). Against this background, the country has faced several EU infringement proceedings for failing to meet limit values for PM<sub>10</sub> (IEP, 2022<sup>[73]</sup>).

Residential heating is responsible for 11% of CO<sub>2</sub> emissions. CO<sub>2</sub> emissions from housing depend on the carbon content of fuels combusted directly by households for heating, cooling and cooking (direct emissions) and of primary energy sources used to produce the electricity used by households and district heating (indirect emissions) (OECD, 2023<sup>[74]</sup>). Slovakia’s electricity mix relies substantially on nuclear energy which, given its low carbon content, contributes to comparatively low indirect emissions. However, natural gas and solid fuels, such as coal, wood, or waste, are still the most used energy sources for housing heating and, contribute to higher direct CO<sub>2</sub> emissions compared to indirect emissions (Figure 23).



**Figure 22. Residential heating is the major cause of air pollution**

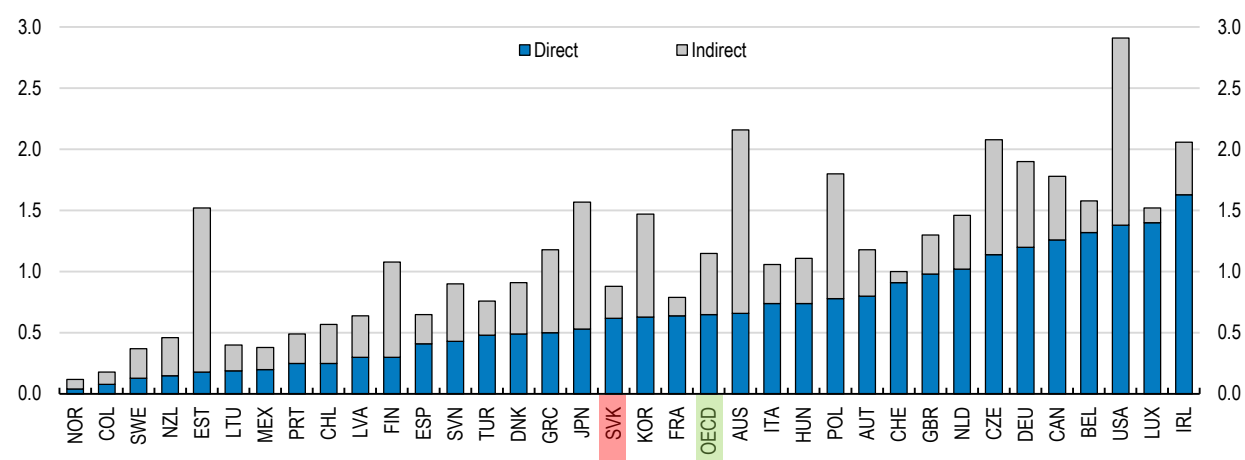


Note: In Panel B, 2019 for OECD.

Source: OECD Air Emission Accounts database; OECD Regional Statistics database; Slovak Republic's Population and Housing Census 2021; and OECD calculations.

**Figure 23. Residential heating by gas and solid fuels explains higher direct CO<sub>2</sub> emissions**

Total CO<sub>2</sub> emissions per capita from the residential sector by country, ton, 2020



Note: Indirect emissions are calculated as follows: (Energy use)\*(pe+pdh)\*EF; where pe=proportion of energy generated by electricity, pdh=proportion of energy generated by district heating, and EF is the emission factor for electricity and district heating (Hoeller et al., 2023<sup>[75]</sup>). Source: IEA (2021), Energy Efficiency Indicators Database; and IEA (2021), Emission Factors Database and OECD calculations.

Slovakia has set targets in line with the EU regulations for reducing emissions caused by the residential sector. In line with the EU average, the National Air Pollution Control Programme (NACP) aims to reduce PM<sub>2.5</sub> emissions by 49% in 2030 compared to 2005 across the economy. In line with the EU Fit-for-55 plan, which aims at reducing total GHG emissions by 55% by 2030, the Slovak Long-Term Renovation Strategy plans reductions of energy consumption in residential and non-residential buildings by 43% by 2030 and 60% by 2050, and of CO<sub>2</sub> emissions by 60% by 2030 and 87% by 2050, compared to 1990. Specifically, there are plans to retrofit 29% of residential buildings by 2030 and the entire residential building stock by 2041 (Ministry of Transport and Construction, 2020<sup>[76]</sup>). According to the Ministry of Transport, total CO<sub>2</sub> emissions from buildings in 2016 were reduced by 40% compared to 1990 (Ministry of Transport and Construction, 2020<sup>[76]</sup>).

Achieving such targets requires increased efforts to renovate the building stock and substitute fossil fuels (based on coal and gas) with renewable energy resources (biogas, solar, geothermal energy, and heat pumps) for heating. To incentivise and accelerate large housing renovations, a combination of carbon pricing, energy efficiency regulations, along with financial support for vulnerable households is essential. The Long-Term-Renovation Strategy estimates investment needs of EUR 17.3 billion over the period 2020-2050 for residential buildings (and EUR 5.5 billion for non-residential buildings). Funding is expected to be partly covered by EU resources.

### ***Extending the EU Emission Trading System to the residential sector***

Net effective carbon tax rates are currently low in the building sector but will increase from 2027 with the implementation of EU ETS II. The effective carbon tax rates on direct emissions from the building sector mainly comprise fuel excise taxes. However, exemptions of such taxes on the use of coal and natural gas for household consumption and on energy sources used to generate electricity and combined heat and power contribute to keeping the effective rate relatively low (Figure 24). While tax exemptions may help improve affordability, they distort price signals and are not well aligned with climate objectives. The EU plans to increase carbon prices for road transport and residential heating from 2027 with the implementation of EU ETS II will indirectly affect more than 50% of households, which currently use individual heating provided by fossil fuels (coal, natural gas). Households connected to the district heating system are already covered by the EU-ETS (IEP, 2022<sup>[73]</sup>). The increase in carbon prices will provide strong incentives for housing renovations and shifting to lower-emission heating systems. This will

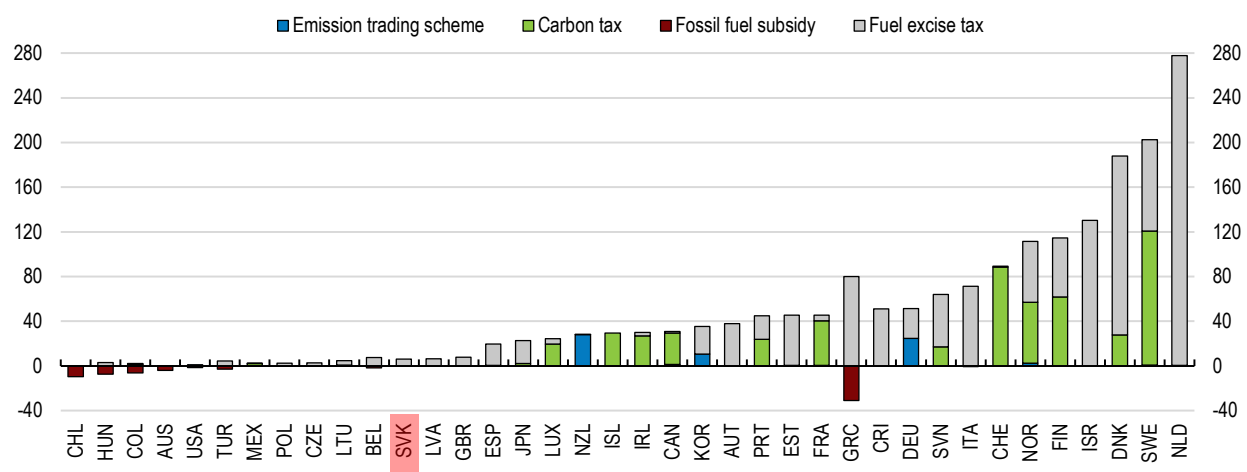
contribute to reducing energy use and CO<sub>2</sub> emissions from the building sector. To accelerate housing decarbonisation, authorities should anticipate EU plans and set up a national trading system in sectors not covered by the ETS with an emissions cap according to the national targets, similarly to what was done in Germany in 2021. Alternatively, an explicit carbon price outside the EU ETS could be introduced, and an increasing carbon price trajectory announced (see the 2024 OECD Economic Survey of the Slovak Republic (OECD, 2024<sup>[11]</sup>)).

While pricing carbon is the most effective way to internalise climate externalities, the buildings sector is not as responsive to price signals as other sectors. This is partly because housing renovations are typically carried out infrequently (e.g., roofs are renovated every 50 years in Germany), and several market imperfections lead to underinvestment in energy retrofitting. These include credit constraints for households, limited homeowner awareness regarding the quality of insulation in their homes, and coordination issues for buildings with several apartments (representing 65% of the housing stock in Slovakia). Moreover, tenants usually have limited options to react to higher energy costs, while property owners may have weak incentives to invest in energy efficiency because they typically do not pay the energy bills (Hoeller et al., 2023<sup>[75]</sup>). However, this split-incentives problem in rented dwellings is less of an issue in Slovakia because of the limited rental market.

Addressing market failures requires the extension of mandatory high quality energy performance certifications, tightening regulations and introducing financial incentives to increase the feasibility and attractiveness of investment in low-emissions energy equipment. As the rental market develops, it will also be important to align the interests of renters and landlords with respect to such investments. The authorities could consider following the example of Germany, which in 2022 announced that the carbon tax liability would be split between landlords and tenants depending on the building's emission performance, with tenants in low-emission housing bearing most of the tax, while landlords being liable for most of the additional tax for carbon-intensive rental dwellings. Sequencing of the different policy instruments for the decarbonisation of the housing sector can play an important role for its effectiveness. Accelerating energy efficiency improvements via tighter regulations, in conjunction with financial support to vulnerable households and enhancing public awareness about the benefits of energy efficiency upgrades, can protect households against future energy price increases due to higher carbon pricing.

### Figure 24. Effective carbon tax rates in the building sector are low

Estimated effective carbon rates in the building sector, EUR per tonne of CO<sub>2</sub>, 2021



Note: The net effective carbon rate is composed of emission trading prices, carbon taxes, fuel excise taxes minus fossil fuel subsidies. The electricity sector refers to electricity generation, and the effective carbon rates do not incorporate electricity excise taxes.

Source: OECD (2022), Pricing Greenhouse Gas Emissions: Turning Climate Targets into Climate Action, OECD Series on Carbon Pricing and Energy Taxation, OECD Publishing, Paris, <https://doi.org/10.1787/e9778969-en>.

### ***Complementing carbon prices with energy performance certifications, regulations, and financial incentives for building renovations***

Price signals to incentivise housing renovations should be complemented with highly reliable energy performance certifications (EPCs) and regulation. EPCs represent a reliable and standardised source of information regarding the energy performance of buildings, which also include practical guidance on how to move from one performance class to another. This enables easy comparison of energy performance of properties and tracking of worst performing properties. Higher energy performance certificates ratings can positively impact the market value of a property, incentivising homeowners to undertake renovations (Charalambides et al., 2018<sup>[77]</sup>; Hoeller et al., 2023<sup>[75]</sup>). Buildings with EPCs only represent 0.43% of the total housing stock in Slovakia. Requirements only apply to new buildings and properties for rental or sale. The restriction of such requirements to this category of buildings is in line with current European standards, but significantly reduces the effectiveness of certifications as an energy-saving tool.

Slovakia should make more efforts to gather high-quality reliable information on the energy efficiency of the residential building stock, by extending coverage of EPCs before 2030. This would help ensuring compliance with the EU Energy Performance of Buildings Directive (EPBD) which sets the objective of reducing the average primary energy use of residential buildings by 16% by 2030 and 20-22% by 2035, mostly through the renovations of the worst-performing buildings. For instance, authorities could follow the example of other countries, such as the Netherlands or France, where certifications have become mandatory for all properties in multi-family buildings already from January 2023. To alleviate the burden on vulnerable households for the acquisition of EPCs (estimated to be about EUR 300 per housing unit), financial support such as grants or loans at favourable conditions could be provided. Renovations of worst-performing houses can be incentivised by excluding the possibility of renting apartments of the worst category, as done in France from 2023 onwards. However, this should be done in conjunction with efforts to promote the expansion of the rental market (see above).

Given the long average lifespan of new homes, setting regulations in terms of building standards for new dwellings is crucial for the decarbonisation of the housing stock. In line with the EU EPBD Directive, since January 2021 all newly constructed residential buildings in Slovakia are required to meet the criteria for nearly zero-emission buildings (nZEB). This implies that all new buildings should have effective thermal protection and energy should be generated from renewable sources to the extent possible. The updated EU EPBD proposal further tightens these criteria and sets the goal of constructing zero emission buildings (ZEB) from 2030. To accelerate the process, Slovakia could consider requiring all new buildings to be ZEB even before 2030. This, however, should be done in line with efforts to boost eco-innovation in the construction sector to maximise cost-effectiveness.

Natural gas and solid fuels, such as coal, wood, or waste, are still the most widely used energy sources for housing heating, and there are still 34 000 coal-fired households in Slovakia. This contributes to high air pollution and CO<sub>2</sub> emissions (see above). The authorities could consider placing a ban on fossil fuel equipment, such as fossil fuel boilers, in combination with enhanced support measures for installing energy-efficient heating devices relying on renewable energy (e.g., heat pumps, solar collectors, photovoltaic panels). A welcome step in this direction has been recently taken by stopping subsidises for the installation of gas boilers, while supporting the installation of heat pumps and solar panels. The modernisation and scaling up of the district heating system, in conjunction with efforts to move to large capacity electric heat pumps, also has great potential to decarbonise the building sector (Box 8).

Slovakia has many years of experience in funding buildings renovations to improve the energy efficiency of dwellings. The low quality of the housing stock inherited from the large-scale constructions during the communist era have required several waves of renovations. The first renovation wave took place in the early 1990s, and since 1996 support has been provided to improve thermal insulation of residential buildings. Subsidies and loans at favourable conditions from the SHDF have been provided to households to undertake renovations since the early 2000s. Consequently, as of December 2019, 68% of apartments

in multi-apartment buildings and 45% of single-family houses had been renovated at least once partially. This has positively contributed to the reduction in energy intensity in the residential sector between 2000 and 2018 (Figure 7, Panel B). However, a large part of already renovated dwellings will need to undergo further and more substantial renovations to meet the new standards in place since 2020.

### **Box 8. Decarbonising the building sector through district heating**

District heating systems, i.e., systems that generate heat in a centralised location and then distribute it to residential buildings, businesses and industry in a local area, have great potential to decarbonise the building sector. Modern district heating networks with low operating temperatures can effectively integrate up to 100% of renewable sources to supply energy efficient buildings. Additionally, compared to individual heating systems, district heating systems benefit from economies of scale, which result in lower production costs. This implies that when transitioning to renewable energy sources, upfront investment costs and CO<sub>2</sub> abatement costs are reduced (Hoeller et al., 2023<sup>[75]</sup>).

Slovakia would largely benefit from improving the technology and infrastructure of its district heating system and expanding connections to residential buildings. The Slovak district heating system is one of the most developed in Europe, and it currently supplies more than one-third of dwellings in multi-apartment buildings (Statistical Office of the SR, 2021<sup>[78]</sup>). District heating networks were first introduced in Slovakia during the communist era to supply large parts of the population with a stable heat supply. However, over time the district heating market has lost customers to individual heating solutions, mainly natural gas boilers, and the old and inefficient infrastructure has not been adapted to the fall in demand, producing heat at excess capacity. Natural gas accounts for nearly half of the total district heating generation, followed by coal (IEA, 2018<sup>[79]</sup>). The share of renewable energy sources in heat production in district heating systems increased over time, but is still low, representing 18.9% in 2019 and is mostly dominated by biomass, which can have negative effects on local air pollution, and could run counter the land use/land use change and forestry sector (LULUCF) goals (see the 2024 OECD Economic Survey of the Slovak Republic (OECD, 2024<sup>[11]</sup>)) (Ministry of Economy, 2021<sup>[80]</sup>).

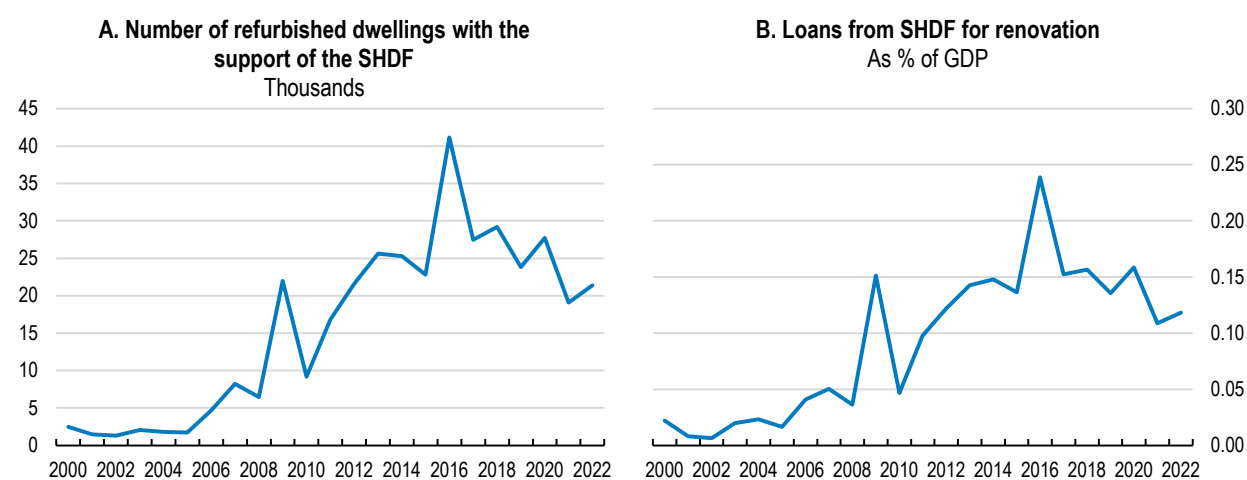
The modernisation and scale up of the district heating system in Slovakia are objectives of the Integrated National Energy and Climate Plan for 2021 to 2030 (INECP). In 2021, the European Commission approved, under EU State aid rules, financial support for the production of electricity from high-efficiency cogeneration installations connected to district heating networks in the amount of EUR 1 050 million for a maximum period of 15 years. In May 2023, a bill to amend the “Act on Heating” to encourage the use of renewable heat sources, including geothermal energy, through the administrative simplification of building permits for heating infrastructure passed the first reading in Parliament.

Leveraging successful examples from other OECD countries can support the effective implementation of these measures. In Denmark, for instance, around 65% of homes are connected to district heating, one of the highest district heating penetration rates in the world. One element of success of the Danish district heating system is its locally customised energy and heating systems achieved through strategic urban energy structure planning (zoning). According to this process, municipalities identify the most efficient and cost-effective heat supplies in urban and suburban areas and define the geographical zones or boundaries for both the natural gas networks and district heating networks. This practice ensures that heat generated in areas with large plants and incinerators is efficiently supplied through the local district heating system (OECD, 2023<sup>[81]</sup>). However, Denmark heavily depends on biomass (wood) for district heating, raising concerns about its adverse impacts on air quality, land use, and biodiversity. In light of these issues, the recent OECD Economic Survey advises a transition towards utilising large-capacity electric heat pumps (OECD, 2021<sup>[82]</sup>).

Long-term loans at favourable conditions from the SHDF should remain the main instrument for financing housing retrofits. Renovations require high upfront investments. However, a private credit market for

housing renovations is still not well developed (Hoeller et al., 2023<sup>[75]</sup>). State-guaranteed loans covering up to 100% of the investment costs fill this gap. Operating as a revolving fund (see above), the SHDF is now almost totally financed by its own resources, reducing the burden on the state budget. Projects funded by loans from the SHDF target multi-apartment buildings or family houses which have been in use for at least 10-years and are subject to achieving at least 35% in energy savings. Such projects are conditioned to technical ex ante and ex post evaluations, which increase the potential effectiveness of the renovations in terms of energy savings. The number of refurbished apartments financed through loans from the SHDF has been decreasing since 2016 (Figure 25). To address this issue, the authorities should make sure that funding from the SHDF continues to be adequately provided to support large scale renovations. However, this decline may also reflect a slowdown in the demand for such loans, possibly because households might have already undergone renovations in the past and may be reluctant to go through the process again. Furthermore, challenges related to coordination issues in multi-apartment buildings, a lack of awareness of available financing support and inefficiencies in the renovation process might be hindering the uptake of SHDF loans.

**Figure 25. The number of refurbished dwellings with the support of SHDF loans is decreasing**



Note: SHDF stands for State Housing Development Fund.

Source: Ministry of Transport of the Slovak Republic.

Grants should complement loans, especially for low-income households. Currently, EU-funded grants can cover up to 50% of eligible costs for installing energy-efficient heating devices relying on renewable energy (e.g., heat pumps, solar collectors, photovoltaic panels). This is welcome, especially as increasing carbon prices will strongly affect households heating with coal (34 000 households) and raises the risk of a shift towards wood heating, jeopardising air pollution goals. Moreover, there are grants funded from the EU Recovery and Resilience facility covering up to 50% of the costs for large-scale renovations of single-family houses. Initially, the take-up of the grants was limited. Stakeholders reported administrative complexities and lack of resources for many households to cover the initial 50% of costs. However, the latest call in October 2023 attracted a much larger proportion of households thanks to simplification of the administrative procedures. Furthermore, the REPowerEU plan aims to streamline administrative procedures and increase grants for vulnerable households to fully cover eligible renovation costs. To accelerate renovations the authorities could also consider covering a higher share of the renovation costs for the most vulnerable, but still financing the rest of the expenses through loans from the SHDF. This approach would ensure that households have a financial stake in the project and incentivise behaviours that seek to minimise energy consumption.

Financial support for housing renovations can have high costs per tonne of CO<sub>2</sub> abated. Therefore, subsidies should first target the most energy-inefficient dwellings, and renovation schemes should be assessed ex-ante and ex-post by independent energy performance experts (Hoeller et al., 2023<sup>[75]</sup>; OECD,

2023<sup>[74]</sup>). This is already the case for renovation projects funded by loans from the SHDF. In addition, there are plans to condition government support for renovations on achieved energy savings by using information from gas and electricity meters. Improvement in data collection about the energy efficiency of the housing stock, for example through the extension of coverage of EPCs, is needed to better target the worst performing dwellings. The recently submitted RePowerEU plan assigns EUR 30 million to the creation of a unified database on energy performance of all buildings by 2026, which will contain information on EPCs, updates on the status of building renovations, reports from inspections of heating and cooling systems, data on renewable energy sources. This is a welcome step, and its implementation should be expedited.

Additionally, renovation grants could be better targeted at the most vulnerable households living in the most energy-inefficient dwellings. Untargeted grants face the risk of disproportionately benefitting middle and high-income households, and funding renovation works that would have been undertaken even in the absence of support (Nauleau, 2014<sup>[83]</sup>; Brugnara and Ricciardi, 2021<sup>[84]</sup>). To limit this risk the authorities should take into account both the energy performance of the buildings and households' income. For example, since 2022 in France grants from the programme "*Ma Prime Renov*" have been subject to means testing and have been contingent on the energy savings generated by the renovation works. A multi-dimensional and operational definition of household at risk of energy poverty is under preparation to better identify potential beneficiaries of renovation grants. However, there is the need to strengthen data collection and allowing linking databases containing different sources of information on households' income and energy efficiency of single housing units, as for example was done in Denmark, to improve targeting of renovation grants (see the 2024 OECD Economic Survey of the Slovak Republic (OECD, 2024<sup>[11]</sup>)).

Relaxing voting rules could accelerate the pace of renovations in multi-apartment buildings. As in other OECD countries, a two-third majority of the owners is needed to agree to undertake renovations in multi-apartment buildings. This is often difficult to achieve, as some homeowners may not have the resources to cover the costs, while others may not want to deal with the discomfort of living in a building going through renovation works. Population ageing also poses issues, as older people may have less incentives and capacity to take up loans for renovation purposes (Ministry of Transport and Construction, 2020<sup>[76]</sup>). Therefore, the authorities could consider relaxing the voting requirement as was done in Austria, for example, where the requirement of obtaining a two-thirds majority was recently relaxed to a simple majority (Hoeller et al., 2023<sup>[75]</sup>). This should however be done in conjunction with efforts to support households that cannot afford paying for renovations, using a combination of loans at favourable conditions and grants, in addition to policies that enhance public awareness about the benefits of energy efficiency upgrades (see below).

Improving the efficiency of the renovation process can also boost building renovations. Large-scale energy efficiency renovations often involve coordination among multiple specialised contractors, and delays at any stage can lead to additional costs. Some countries, like Latvia and Estonia, are testing the use of prefabricated multifunctional renovation elements to expedite the process and minimise disruption for occupants making renovations more appealing to owners (Box 9). Additionally, the Netherlands has implemented a programme that enhances coordination among various renovation steps, reducing the total time for net-zero renovations of social housing to just 10 days (OECD, 2023<sup>[40]</sup>). Fast renovations can also diminish discomfort related to the works. Moreover, improving the administrative process of obtaining permissions for renovation works is crucial. To do so, the authorities could establish a one-stop-shop or a single contact point in the public administration (see discussions about building permits procedures above).

Energy efficiency measures should be accompanied by policies that incentivise behavioural changes. Energy efficiency measures can lead to rebound effects. For example, given the expected savings in energy costs, households might use energy efficient appliances more frequently or for longer durations, offsetting some of the energy savings (Allcott and Greenstone, 2012<sup>[85]</sup>; Gerarden, Newell and Stavins, 2017<sup>[86]</sup>; Levinson, 2016<sup>[87]</sup>; Hoeller et al., 2023<sup>[75]</sup>). Carbon pricing is the most effective way to encourage

behavioural changes to promote energy savings. However, to enhance effectiveness, it could be complemented by initiatives that raise households' awareness by directly confronting them with their individual consumption (Font Vivanco, Kemp and van der Voet, 2016<sup>[88]</sup>). This can be done, for example, by incentivising adoption of technologies that provide real-time feedback on electricity consumption, prices, and expenditures, such as smart meters. According to the literature, smart meters can reduce energy consumption by approximately 5–15% and water consumption by 17% (Font Vivanco, Kemp and van der Voet, 2016<sup>[88]</sup>). Redesigning energy bills by stressing comparison in energy consumption with neighbours, has been proven effective in increasing households' energy savings by up to 2.55% in 27 states in the US (Jachimowicz et al., 2018<sup>[89]</sup>; Papa and Cavassini, 2023<sup>[90]</sup>).

Enhancing public awareness about the benefits of energy efficiency upgrades can help accelerate the pace of large-scale renovations. Some households may not be aware of the insulation of their home, the potential financial benefits of renovations, and the existence of support programmes. Lack of information may be a particular problem for older homeowners and in rural areas. Public campaigns can help increase awareness and take up of support measures. The Ministry of Transport regularly organises conferences to inform citizens and managers of buildings about legislative changes, new technologies, products, and innovative processes in the construction industry. Such activities are welcome, and their effectiveness in terms of accelerating renovation works could be evaluated. For example, in Latvia, the “Let's live warmer!” (*Dzīvo siltāk!*) programme, which included various activities (e.g., seminars, workshops, public discussions, and publications at national, regional, and local levels) to inform citizens about the benefits of carrying out renovation projects resulted in a significant increase in the number of renovation applications. Applications for the improvement of heat insulation of multi-apartment buildings programme quadrupled from 2009 (prior to the campaign) to 2011 (OECD, 2023<sup>[40]</sup>).

### **Box 9. Increasing efficiency of deep residential renovations: the More-Connect pilots in Estonia and Latvia**

Estonia and Latvia have developed pilot projects to test more efficient ways to undertake deep residential renovation by using prefabricated multifunctional renovation elements. This pilot is part of the development of the integrated design of nearly Zero Energy Buildings (nZEB), funded by the European Union's H2020 framework programme for research and innovation. Projects generally include thermal insulation, high-performance window installation, insulation of the roof, mechanical ventilation, a heat pump for hot water use and heating, and photovoltaic panels for electricity generation.

In Tallinn (Estonia), a pilot project successfully modernised a typical five-story multi-apartment building in using prefabricated large concrete panel elements. In Latvia, another pilot project focused on the deep renovation of a silicate brick building constructed in 1967, which was a commonly used building style in rural areas and smaller cities across the country during the 1950-1960s. The Baltic cases are relevant to the Slovak Republic, where a significant portion of the housing stock consists of multi-apartment buildings built before 1993 and predominantly made of brick.

Initial findings suggest that modular renovations can provide an efficient alternative to traditional deep renovation in both urban and rural areas. Using prefabricated renovation elements is particularly convenient as it offers a one-stop-shop solution for production and a single point of contact for end-users. Apartment owners can rely on one party who is responsible for all stages of the renovation, from initial planning, inventory of specific demands, adherence to building codes, translation into modular renovation kits, installation of the modules, to financing and aftercare, simplifying procedures and accelerating the process.

Source: (OECD, 2023<sup>[40]</sup>)



**Table 3. Policy recommendations for addressing housing market challenges**

MAIN POLICY FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
<b>Boosting the efficiency of the housing market</b>	
Land use policy is currently highly decentralised and fragmented. This leads to inefficiencies in the management of resources, challenges in hiring qualified staff for construction-related tasks, and an increased risk of policy capture by local stakeholders, resulting in blockages of construction projects at municipal level.	Give more responsibilities to higher levels of government in land use policy and construction-related activities to facilitate construction projects. Promote coordination across different ministries and bodies with overlapping responsibilities of housing policy to avoid conflicting policies or regulations.
Limited digital adoption slows the administrative process for building permits. Lack of national enforceable statutory deadlines in building permit procedures results in the proliferation of unauthorised buildings and high perceived corruption.	<b>Accelerate the adoption of digital tools in building permits procedures, including by introducing digital platforms as one-stop shops.</b> Introduce national statutory deadlines in building permits procedures, after which applicants automatically receive project approval or the decision is referred to a higher instance.
Standard indefinite rental contracts have become rare given the high level of tenant protection they afford, and most new contracts are subject to the Short-Term Act with little protection to the tenant.	<b>Amend rental regulations to better balance the interests of landlords and tenants.</b> Make provision for a rental contract with flexible renewal possibilities; the obligation for tenants to pay a security deposit; specified reasons to evict the tenant, with adequate notice period; without the obligation for landlords to find replacement housing for evicted tenants; and without the requirement to pass the tenancy to the heirs.
The tax system favours owner-occupied housing over rentals. The justification for allowing the deductibility of mortgage interest payments on owner-occupied housing is limited as imputed rents are untaxed.	Gradually phase out mortgage interest relief for homeowners.
Capital gains on the sale of the property are tax exempted, undermining incentives for investing in other productive projects by creating a preferential treatment for investing in homeownership.	Phase out tax exemptions on capital gains from the sale of the property.
Recurrent taxes on immovable property are low. Their design, which bases recurrent taxes on immovable property on the area of the property, harms efficiency and equity.	<b>Change the base for recurrent taxes on immovable property from area-based to regularly updated market values.</b> Introduce options to protect the most vulnerable property owners, such as tax deferrals or payments in instalments.
<b>Enhancing housing inclusiveness</b>	
The social housing stock is inadequate and public spending on the construction of social rental housing is low. Some eligibility conditions set by municipalities for households to access this sector are too strict, excluding many households in need.	<b>Set clear targets for social housing units with portable eligibility rights in collaboration with municipalities and ensure adequate funding from the central and municipal budgets for their construction and operation.</b> Relax excessively stringent eligibility conditions set by municipalities for access to social housing and regularly review eligibility criteria based on income and social conditions
Many Roma live in informal settlements without legal title to the land, which prevents them from accessing basic infrastructures (e.g., access to electricity, drinkable water) and often results in forced evictions and homelessness. Many Roma families are unable to access state support, like housing allowances, which demand proof of dwelling ownership or lawful occupancy.	<b>Accelerate the formalisation of property rights in Roma settlements</b> , including by legalising the land where houses were already built, and providing municipalities and Roma families with expert legal counselling for the necessary administrative processes.
Homelessness data are collected only every ten years. Most of the actions to address homelessness have been confined to the local level.	Conduct more regular data collection on homelessness at the national level to identify needs and coordinate the implementation of the action plan with municipalities.
<b>Improving the energy efficiency of the housing stock</b>	
The revision of the EU Energy Performance of Buildings Directive aims for higher quality and comparability of Energy Performance Certificates, and targets to reduce the average primary energy use of residential buildings by 16% mainly through renovations of the worst-performing units by 2030.	<b>Extend coverage of energy performance certificates and incentivise renovations of worst-performing dwellings before 2030</b> , for example by excluding the possibility of renting them.
Financial support for housing renovations can have high costs per ton of CO <sub>2</sub> abated. Untargeted renovation grants could disproportionately benefit higher-income households and fund renovation works that would have been undertaken even in absence of the support.	<b>Target renovation grants to low-income households living in the most energy inefficient dwellings.</b>
Coordination issues in buildings with several apartments and limited homeowner awareness regarding the quality of insulation in their homes lead to weak demand for support measures and can result in underinvestment in housing renovations.	Relax voting rules to accelerate the pace of renovation in multi-apartment buildings. Scale up effective awareness campaigns about the benefits of energy efficiency upgrades.

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