

**Building on Progress: The Future of Housing Finance in Poland**

## **Annexes A and B**

### **Annex A -- A Comparison of Housing Sector Performance in Poland and Central and Eastern Europe: 1990-1994**

### **Annex B -- Poland in Numbers**

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# INTRODUCTION

These Annexes provide a companion volume to *Building on Progress: The Future of Housing Finance in Poland*.

Annex A provides a comparison of Poland with other transition countries in Central and Eastern Europe and additional comparisons with Western Europe and countries with levels of income similar to those in the transition economies. It is drawn largely from the 1996 report *Transition of the Housing Sector in the East-Central European Countries*.<sup>1</sup> The comparative analysis focuses on 1990 and 1994, the two years for which a consistent set of housing sector indicators was collected for the transition and other countries in the study. The 1994 data may, in many respects, not be fully relevant to current conditions. Nevertheless, the “story” of the early transition years may provide “lessons learned” which are still applicable to present circumstances or which help explain present conditions. Please refer to Chapter 2.0 in the main report for an additional discussion of the comparative analysis in Annex A.

Annex B provides a brief statistical overview of the housing sector and the macro economy of Poland. It supplements data found throughout the main report.<sup>2</sup>

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1 Hegedus, József, Mayo, Stephen, and Tosics, Ivan, *Transition of the Housing Sector in the East-Central European Countries*. Budapest: USAID, 1996. Annex A was prepared by Stephen Mayo.

2 Annex B was prepared by Maris Mikelsons of the Urban Institute with assistance from Barbara Werchowicka of the Cracow Real Estate Institute and Zbigniew Tłok.

# ANNEX A — A COMPARISON OF HOUSING SECTOR PERFORMANCE IN POLAND AND CENTRAL AND EASTERN EUROPE: 1990-1994

At the onset of the current economic and political transition in Poland, the housing sector was characterized by a number of features that differentiate its performance from both those of Western European countries and market-oriented developing countries with comparable levels of GNP per capita. Since the transition began, the sector's performance has likewise been different from those of its comparators in Western Europe and those of market-oriented developing countries. Information on these initial and continuing differences and on the factors responsible for having created them can provide important clues as to both the future evolution of the sector and the policy, regulatory, and institutional reforms necessary to create a stable and well-functioning sector — one capable of providing good housing at affordable prices while also serving broader economic and social goals.

This annex presents a brief framework for understanding the performance of the Polish housing sector during the early years of the transition — 1990-1994. It describes initial differences in performance among Poland and other transition countries, indicates important trends since the transition began, and suggests ways that the sector might evolve in the future, depending on choices that are made concerning overall economic performance and reforms in policies, regulations, and institutional arrangements.

## A Framework for Evaluating Housing Sector Performance

The analysis presented below is based on a framework for evaluating housing sector performance developed by the United Nations Center for Human Settlements (UNCHS) and the World Bank as part of the Housing Indicators Program, which was begun in 1990 to create a framework for analyzing housing sector performance and to establish a comparative data base on the performance of the housing sector in both developed and developing countries. The program initially collected data on more than 50 key indicators related to sector performance in 53 countries around the world representing more than 80 percent of the world's population and spanning all continents, levels of economic development, and political systems. Poland, as well as several other Central and Eastern European countries, was included in the first phase of data collection, which focused on data for 1990. Subsequently, data were collected in more than 100 countries as part of an expanded program of data collection as part of the UNCHS Housing and Urban Indicators Program, which was designed in part to provide information necessary for the preparation of individual country reports as part of the preparation of the "Habitat II" Conference, the so-called City Summit. In addition, USAID sponsored the collection of detailed data on housing indicators for 12 Eastern European countries during the period of transition 1990 - 1994.<sup>3</sup>

From today's perspective, the drawbacks of the analysis are two-fold: (1) the 1994 data are no longer fully representative of current conditions, and (2) some of the data pertain to Warsaw only, which, in many ways, is not representative of the rest of Poland. Nevertheless, the early years of the transition period may continue to be instructive in a number of ways, particularly in recommendations for further policy reform in the housing sector.

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3 This work is reported on in József Hegedus et. al., *Transition of the Housing Sector in the East-Central European Countries*.

The framework for evaluating sector performance is based on an analysis of a small number of “key indicators” representing the concern of each of the key stakeholders in the housing sector — consumers, producers, and financiers of housing, and the local and central governments that regulate, tax, subsidize, and otherwise intervene in the operation of the housing sector. For example, to evaluate the sector from the perspective of consumers, indicators of the price of housing, such as the rent-to-income ratio, and the house price-to-income ratio, and on housing quality, tenure status, and housing quality are evaluated. For producers, levels of housing investment relative to GNP or production relative to the population are evaluated. For financiers, the share of housing loans relative to all credit, as well as the spread between lending and deposit rates, are considered. For governments, levels of subsidies and taxes are considered. By comparing values of these indicators for particular countries or for specific cities to “typical” values for places with similar incomes and other characteristics, differences in sectoral performance can be highlighted, and reasons for the differences inferred.

In the analysis presented below, we focus on a subset of the full range of indicators examined within the Housing Indicators Program, but one which gives rich insights into both the structure and performance of the housing sector in Poland.

## **Polish Housing Sector Performance at the Time of the Transition**

In 1990, the structure and performance of the Polish housing sector were dominated by the socialist housing model, in which the state intervened in all aspects of housing policy — controlling prices, production, investment, physical design, housing quality, and building industry organization. Such heavy intervention in Poland, as well as in other Central and Eastern European states, produced a number of characteristic differences in housing outcomes from other, primarily market-oriented economies<sup>4</sup> with otherwise comparable features such as the level of GDP per capita, demographic features, etc. These otherwise comparable countries have been labeled the “income comparators” for this study.<sup>5</sup> They are important because comparison of the transition economies solely with Western Europe can be misleading because of the very significant differences in income. However, although the comparators present a more similar picture in terms of income, there still may be important differences — cultural, social, and historical — that also render these comparisons problematic. In essence, as noted in Chapter 1.0 of the main report, there is no way to predict what the level of housing production (or other economic magnitudes) should now be in the transition countries via comparison with countries which were not managed with a socialist system. As the transition countries continue their move from “plan to market,”<sup>6</sup> comparisons will become more relevant and the “normal” level of housing production that might be expected, based on income and other characteristics, can be estimated. In any event, comparisons among the transition countries and comparisons with Western Europe and the income comparators will, taken together, provide some benchmarks for a better understanding of housing performance in Central and Eastern Europe.

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4 Among comparator countries, only two, Algeria and South Africa, have had substantial elements of non-market production and control of the housing sector.

5 Comparator countries include in creasing order of GNP per capita in 1990): Jordan, Columbia, Thailand, Tunisia,. Jamaica, Turkey, Chile, Algeria, Malaysia, Mexico, South Africa, Venezuela, Brazil, Korea, and Greece.

6 See Bertrand Renaud, “Housing finance in Transition Countries”.

Table A.1 illustrates a number of these differences based on key indicators of sector performance. The lower income levels of Central and Eastern as compared to Western European economies resulted

**Table A.1**  
**Key Indicators of Housing Sector Performance in 1990**  
**Cities in Western Europe, Central and Eastern Europe, and Market-oriented Countries**  
**With Incomes Comparable to Eastern Europe, and Poland**

Indicator	Country Grouping			
	Central and Eastern Europe	Income Comparators	Poland	Western Europe
Per capita GNP: 1990 (\$U.S./year)	\$2,552	\$2,431	\$1,910	\$19,792
Share of Owner-occupied Housing (%)	28% Cities, 58% Countries	62%	6.2% Warsaw, 40% Country	65%
Rent to Income (%)	5.7%	20.5%	5.8% Warsaw, 1% Country	15.9%
House Price (Median Dwelling) to Income	9.3	4.2	10.8 (Warsaw)	4.7
Floor Area per Person (M <sup>2</sup> )	19.6	14.0	18.5 (Warsaw)	32.3
Households per Dwelling Unit	1.12	1.16	1.10 (Warsaw)	1.02
Persons per Room	1.28	1.74	0.91 (Warsaw)	0.67
Dwelling Units per 1000 People	366	207	372 (Warsaw)	481
Housing Production: Dwellings Produced per 1000 People	4.5	7.4	1.9 Warsaw, 3.5 Country	3.8
Housing Investment as a Share of GNP (%)	3.7%	6.3%	4.7% Warsaw, 5.2% Country	3.8%
Household Formation Rate	1.4%	4.6%	0% Warsaw, 0.2% Country (90-94)	0.9%
Annual Expansion of Housing Stock (%)	2.0%	4.1%	0.5% (Warsaw)	1.3%
Housing Credit Portfolio <sup>7</sup>	9.7%	15.6%	4.1%	26.2%

7 Defined as the ratio of the value of total housing loans to the value of all outstanding loans in both commercial and government financial institutions.

in a number of differences among these countries.<sup>8</sup> However, some of policies pursued by the socialist housing model resulted in a narrowing of differences, both with the comparator economies and Western Europe, while others widened differences. In either case questions may be raised about the sustainability of the differences under the new policy regimes emerging in the transition countries — those based on market principles, and in which the role of the state is diminished both in terms of direct control of the sector and the resources provided by the state to the sector.

Among the key findings concerning relative sectoral performance are the following:

- (1) Macroeconomic and demographic data indicated that transitional economies were similar to Western Europe<sup>9</sup> in terms of demographic data such as household formation rates (1.4 percent per year vs. 0.9 percent), and similar to a number of a number of developing country market economies in terms of income. Incomes (per capita) for transitional economies<sup>10</sup> as a whole were only one-eighth those of Western Europe in 1990 (\$2,552 vs. \$19,792), but rates of household formation in transition economies (1.4 percent) were only about one-fourth those of income comparators (4.6 percent). These differences have major implications for a variety of comparative housing outcomes.<sup>11</sup>
- (2) Housing prices in transitional economies have been greatly distorted relative to those in either Western Europe or comparator countries, with rents relative to incomes lower by from 66 to 75 percent, and housing prices relative to incomes more than twice as high among transitional economies. Rents relative to incomes in transitional economies were only 5.7 percent, with figures for Poland estimated to be 5.8 percent in Warsaw and 1 percent for the country as a whole in 1990. Among income comparators, the average was

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8 Unless otherwise noted, comparisons are for cities rather than countries as a whole. Cities represented in the Central European group are always capital cities; cities for Western Europe are capital cities except for Munich, Germany. Comparator cities in developing countries are capital cities with the exception of Monterrey, Mexico and greater Johannesburg, South Africa. Again, some analysts note that city comparisons are misleading because urban and rural areas offer different profiles in most countries. Nevertheless, the city data set allows a complete and consistent analysis.

9 Countries include, in increasing order of 1990 GNP per capita: Spain, United Kingdom, Netherlands, Austria, France, Germany, Sweden, Norway, and Finland.

10 Transitional economies include, in Central Europe, the Czech Republic, Hungary, Poland, Slovakia, and Slovenia; in Southern Europe, Albania, Bulgaria, Croatia, and Romania; and the Baltic states of Estonia, Latvia, and Lithuania.

11 It should be noted that GNP estimates for the transition countries in 1990 are questionable. A recent study has presented estimates based on the purchasing power parity method (PPP) for 1993 which give another perspective. Most transition countries experienced absolute declines in GDP in the early years of the transition. Poland, however, had recovered a positive real rate of growth by 1992, so 1993 may be a fairly reasonable a benchmark for comparing Poland with Western Europe. Thus, per capita income as measured by PPP was \$4907 in Poland in 1993, \$5780 in Hungary, \$20,197 in Germany, \$18,232 in France, \$16,724 in Italy, \$12,986 in Spain, and \$9638 in Portugal. Clearly, while large differences remain, Poland's relative position is much improved as compared as compared with the 1990 figures, both because it had experienced two years of growth but also because the PPP method of measurement places transition economies in a more favorable light. Source: World Resources Institute.

20.5 percent, with 10 of 14 countries having ratios above 16.2 percent. Ratios of median house prices to median household incomes in income comparators and Western Europe were, respectively, 4.2 and 4.7 times annual income, while in the transitional economies the median ratio was 9.3 (10.8 in Warsaw). These differences are associated with rent control and non-market production and distribution of housing which resulted in mismatches between supply and demand. Price distortions in Poland were typical of other transitional economy price distortions at the start of the transition.

- (3) Despite the evident price distortion in selling prices of housing, often a product of endemic housing shortages, there was little evidence of quantitative housing shortage in the transitional economies based on the performance of market-oriented income comparators. Comparisons of households per dwelling, dwellings per 1000 people, persons per room, and floor area per person all indicated that transitional economies fared considerably better than did comparable market-oriented economies. On each measure, conditions in Warsaw, for example, appear to be considerably better than was the case in the principal cities of income comparators — with the average household in Warsaw having more than 30 percent more space per person in terms of floor area per person and nearly double the space in terms of persons per room compared to households in income comparators. Even the ratio of households per dwelling, equal to 1.10 in Warsaw in 1990, which is often advanced as evidence of severe housing shortage, is below the corresponding figure for income comparators (1.16). Thus while crowding may have been apparent relative to that of the cities of Western Europe, Poland, and transitional economies in general, did well compared to primarily market-oriented income comparators.

Also, while data are not presented in the table, there was little evidence of qualitative housing shortfalls in the transitional economies based on the performance of market-oriented income comparators. Comparisons of infrastructure availability (water, sanitation, heating, etc.) and the durability of building materials indicate that transitional economies fared considerably better than did comparable market-oriented economies. Estimates of the “world market price” for housing in Warsaw in 1990 suggested that, based on its size and quality (based in part on infrastructure access), it was worth more than double that of housing in most income comparator cities.<sup>12</sup> It is likely that many of the often noted problems of deferred maintenance of the Eastern European housing stock is the result of the high quality and relatively ample space there, compared to what can evidently be afforded in more market-oriented economies.

- (4) Rates of private ownership of housing are considerably lower (an average of 28 percent in cities) in transitional economies than is the case in either income comparator or Western European countries, 62 percent and 65 percent respectively. Despite considerable variability in ownership rates in transitional economies, ownership rates in Poland are lower than would be expected (only 6.2 percent in Warsaw and 40 percent for the country as a whole in 1990, well below the rate of owner occupation in all transitional economies, 58 percent).

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<sup>12</sup> See Hegedus *et al* for comparisons of infrastructure accessibility. Data concerning market values are based on unpublished estimates in Shlomo Angel and Stephen Mayo, *Housing Policy: A Global Perspective*, World Bank, forthcoming.

- (5) Rates of housing production among transitional economies, which are for the most part driven by demographic change in market economies, were more comparable between Central and Western Europe at the start of the transition. This is not surprising, since demographic trends were more comparable for these two groups of countries than was the case of either with market-oriented developing countries. Rates of production in Poland were, nevertheless, somewhat suppressed relative to “expected” rates. In 1990, output per 1000 households stood at 3.5 in Poland (1.9 in Warsaw) compared to rates among other Eastern European countries of 4.5, among income comparators of 7.4, and among Western European countries of 3.8. These differences, however, obscure the relationship between actual production rates and “needed” output for replacement and accommodating new household formation. Thus, even though in 1990, production in Warsaw was only 1.9 dwellings per 1000 people, household formation there was effectively zero, such that modest output was being used primarily to accommodate replacement, undoubling of unrelated households, and replacement of dwellings removed from the stock. In quantitative terms, even this modest level of production was sufficient, on an ongoing basis, to contribute to reducing the ratio of households to dwellings.
- (6) Rates of investment in housing, which are driven by both incomes and demographic factors, were roughly comparable in Western and Central Europe (about 3.7 percent and 3.8 percent, respectively) — with investment relative to GDP about 25 percent lower than in primarily market-oriented developing countries (6.3 percent). Investment in Poland at the start of the transition (5.2 percent of GDP) was higher than that of many other transitional economies, in part a reflection of concerted efforts throughout the decade of the 1980s to reduce persistent shortages in housing. It is important to note the relative position of Polish housing investment at the start of the transition in assessing likely future “recovery levels,” as will be discussed below.
- (7) Housing finance was comparatively underdeveloped in the transition economies relative to the situation in either Western Europe or the market-oriented developing countries. Housing credit relative to all credit (the “housing credit portfolio”) stood at about 26 percent in Western European countries, 16 percent among income comparators, and 10 percent among Eastern European countries in 1990. Comparisons between Poland and other transitional economies are somewhat ambiguous because of differences in definitions of “housing credit.” Data from the first phase of the Housing Indicators Program indicated that housing credit relative to all credit in 1990 stood at only 4.1 percent. Such a level is indicative of a combination of a large share of both owner financing of housing, which is not reflected in lending through the banking system, and government financing in the form of capital grants for cooperative housing and state rental housing.

## **Policy Differences among Countries in the Pre-transition Period**

The sorts of differences among groups of countries indicated above, and differences between Poland and other groups of countries are attributable to a number of clear cut policy and institutional differences among different types of countries and, as well, to differences in the basic economic performance of the countries (especially their rates of GDP growth and inflation rates) and

demographic differences such as the rate of household formation. Understanding changes in the housing sector and its performance during and after the transition depends on having a sense of the key policy elements responsible for differences in outcomes and also a notion of what has been happening to economic and demographic factors. In summary, the key policy and institutional factors responsible for differences between and among countries appear to have been:

- (1) Controls of prices, production, and allocation among Central European economies differentiated them from both market-oriented income comparators and Western Europe. Rent controls limited rents to levels from 2/3 to 3/4 lower than is typical (and affordable) in market-oriented countries. House prices are a reflection of shortages in housing — probably less in the nature of aggregate mismatches of supply and effective demand, and more in the nature of mismatches between demand and supply for particular types of units in “thin” markets characterized by low rates of production and little turnover.
- (2) There was little or no market oriented housing finance in the transitional economies; non-market state banks constituted virtual monopolies in providing available housing credit; interest rates were set at negative real levels. In 1990, 8 of 11 transitional economies had only one bank for making housing loans. Also, in 1990, not one of the transitional economies reported having a positive spread between mortgage lending and deposit interest rates. Most countries in the region had, however, only modestly negative interest rate spreads, ranging from 0.0 to -6.0 in 7 of 8 countries reporting. **Poland was a clear outlier in 1990, with heavily subsidized interest rates — a negative spread of 115.6 percent.**
- (3) Restrictions on ownership of private property had a major impact on tenure patterns in the transitional economies. The existence of a large public or publicly controlled rental sector, restrictions on private ownership of property, or restrictions on the number of properties which could be held led to strongly depressed ownership rates throughout the region, leaving ownership some 20 to 40 percentage points below that of other comparators — either income-based or Western European countries. Since, in the West, housing is the single most important source of wealth for households and is, indeed, the major vehicle for capital accumulation, this has had major implications for the processes by which wealth is created and maintained. Limitations on ownership have also restricted the rate at which the financial system has developed in transitional economies by suppressing loan demand. Throughout the region, the proportion of even newly built housing which is covered by formal finance has been less than 10 percent annually with virtually no coverage of transactions of existing properties.
- (4) Housing subsidies, both on and off government budgets, were set in many transitional economies at levels well above those in income comparators and, relative to government budgets, at levels more typical of those of Western European countries. In 1990, it was estimated that both Western and Central European economies provided housing subsidies equal to between 5 and 10 percent of government budgets; in Poland, on- and off-budget subsidies (off-budget subsidies are primarily interest rate subsidies) to housing were estimated at 7.7 percent and 2.0 percent respectively in 1990. At the same time, the budget share of housing in reporting developing countries was typically between none and 3 percent. **It is partly through the existence of such high subsidy levels that over the years Central and Eastern European countries have been able to produce housing stocks which are as comparatively spacious and well-served by infrastructure (relative to income comparators) as has been the case.**

- (5) Infrastructure standards were high in transitional economies relative to standards in many income comparators, but were not so high as Western European standards. While detailed comparisons in infrastructure standards are difficult because of data limitations, piped drinking water is provided to nearly all urban dwellings in Poland and other transitional economies, while in about one-third of income comparators the figure is less than 90 percent.
- (6) Planning regulations in transitional economies, together with a judgment to treat land used for construction projects as essentially unpriced, led to lower density cities with longer commuting times than would otherwise have been expected. While data are not presented here, forthcoming analysis by Angel and Mayo finds that, on average, travel times to and from work averaged some 40 percent longer than in otherwise comparable cities — primarily as a result of more spread out patterns of living in socialist cities, but also perhaps because of more restrictive housing markets which less easily accommodate moves to get closer to workplaces, and also because of lower rates of automobile ownership in socialist economies (other things being equal).
- (7) Industrial concentration among housing developers in transition economies was well beyond that evidenced in either group of comparator countries. In most of the former, from 50 to 80 percent of the housing being produced was done so by the five largest developers, while in market-oriented countries, typical figures range from less than 10 percent to about 50 percent, suggesting a far greater degree of competition in the latter group of economies. Such differences in industrial concentration imply that the planned economies of Eastern Europe were, in the early years of the economic transition, relatively unsuited for the more competitive environment necessary to function in a more market-oriented economy. Poland's degree of concentration in 1990, with about 44 percent of housing in Warsaw being produced by the 5 largest developers, was relatively less concentrated than that of many of the transitional economies.
- (8) Coordination of activities of government agencies responsible for the housing sector was less than adequate at the time of transition. Planning for the sector appears to have been done with little regard for either the macroeconomic distortions induced by poor sectoral planning or for its inequitable distributional consequences. Distortions in both labor markets and financial markets are evident in Poland, and subsidies appear often to have been badly distributed in relation to need. It has been estimated that wages have been distorted,<sup>13</sup> and that unemployment rates have been increased as a result of inappropriate housing sector policies which have had the effect of restricting mobility — only two of a number of consequences with major economic implications which call for more careful

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13 Stephen K. Mayo and James Stein, "Housing and Labor Market Distortions in Poland: Linkages and Policy Distortions." *Journal of Housing Economics*, July, 1995.

attention to housing policy.<sup>14</sup> It has been estimated that the housing subsidy system in Poland is focused primarily on the better-off, with only 5 percent of subsidies estimated to be going to households with below median incomes.<sup>15</sup> Thus planning regarding both the macroeconomic implications of housing sector performance and the social aspects of the housing production and delivery system (especially as concerns targeting benefits for the needy) appear to have been lacking during the pre-transition period.

## Housing Sector Changes During the Transition Period

Understanding the changes that have occurred within the housing sector during the transition period requires an understanding of both the economic and demographic trends that have influenced sectoral performance and the explicit policy and institutional changes that have taken place. Many of the changes that have affected the Polish housing sector are similar among most of the transitional economies, while some are unique. These factors are discussed below with reference generally to all Central and Eastern European countries.

**Factors influencing changes.** Among the key macroeconomic and political factors influencing the housing sector during the transition have been: (1) economic recession with continued real GNP declines, at least over early years of the transition, (2) structural shifts in the economies, including both shifts from the public to the private sector and among sectors of the economy, (3) high inflation, (4) privatization and restitution of businesses and housing, and (5) devolution of political and financial responsibilities from central to local governments. Table A.2 illustrates changes in GDP growth rates and inflation rates for transition countries for the period 1992-96.

Most transitional economies entered the transitional period with declining GNP and this trend continued for most until the last two years. Poland, however, after declines in GNP in the early years of the transition, experienced positive growth over the period 1992-96. Inflation rates in Poland have been near the average among Central and Eastern European transitional economies during the period 1992-96, varying between 43 percent in 1992 and 18 percent in 1996.

Housing production and investment are among the most sensitive economic aggregates to GDP changes and thus it is not surprising to find that GDP declines are associated with declining levels of output and investment in all transitional economies. On average, housing investment relative to GDP fell by about 50 percent between 1990 and 1994 within the transitional economies, by 52 percent within the Central European economies, and by 65 percent in Poland — from 5.2 percent of GDP in 1990 to only 1.8 percent in 1994. This latter figure, however, is close to the average for the region in 1994, 1.6 percent, and is only slightly below the average for the Central European countries,

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14 See F. Caracal, K. Hagemeyer, and K. Rybinski, "Poland," in *Unemployment, Restructuring, and Labor Markets in Eastern Europe and Russia*. Eds. Simon Commander and Fabrizio Caracal, EDI Development Studies, Washington, D.C., World Bank, 1995. The authors suggest that some 25 percent of Poland's unemployment rate of 16 percent may be attributable to constraints placed on local mobility by the rigidities of the housing market.

15 See József Hegedus and Iván Tosics, *Regional Housing Indicators Database in the Transitional Countries of Central and Eastern Europe*, Metropolitan Research Institute, Budapest, 1996, p.104.

**Table A.2**  
**Gross Domestic Product and Consumer Price Index Inflation**  
**Annual Rate of Change**  
**1992 - 1996**

Year	Gross Domestic Product Annual Rate of Change					Consumer Price Index Inflation Annual Rate of Change				
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
Czech Rep.	-6.4%	-0.9%	2.6%	4.8%	4.2%	11%	21%	10%	10%	9%
Hungary	-3.0	-0.8	2.9	1.5	0.5	23	22	19	29	20
<b>Poland</b>	2.6	3.8	5.0	7.0	6.0	43	35	32	26	18
Slovakia	-7.0	-4.1	4.8	7.3	6.7	10	23	13	11	5
Slovenia	-5.4	1.3	5.5	3.5	3.0	201	32	20	14	9
Average	-0.7	1.6	4.3	4.8	4.1	37	30	25	18	12
Albania	-7.3	N.A.	N.A.	11.0	5.5	N.A.	N.A.	N.A.	N.A.	19
Bulgaria	-9.7	-2.4	1.4	2.5	-10.0	91	74	96	80	311
Croatia	-10.0	-3.7	0.8	-1.5	7.0	666	1517	95	3	4
Romania	-10.0	1.3	3.4	6.9	4.6	211	256	160	50	57
Average	-9.3	-0.2	2.6	4.7	1.8	223	350	125	47	98
Estonia	-31.0	-6.7	-3.2	2.9	3.2	1076	90	42	35	15
Latvia	-33.8	-14.9	0.5	-1.6	1.8	951	109	26	35	13
Lithuania	-37.7	-16.2	-1.8	2.7	3.4	1020	390	40	35	13
Average	-35.1	-13.9	-1.3	1.3	2.8	1008	239	36	35	14
Grand Average	-5.9	-0.1	3.3	3.9	3.0	168	155	60	33	41

Source: Hegedus, Mayo, and Tosics, *op.cit.*, p.11 for 1992 through 1994 for GDP and through 1995 for CPI inflation; *Central European Economic Review*, Wall Street Journal Europe Special Insert, March 1997, for GDP in 1995 and 1996 and for CPI in 1996

2.0 percent. Declines in housing investment throughout the region are mirrored in drops in housing output. For the region as a whole, housing production per 1000 people fell from by 50 percent, from 3.6 to 1.8; in Poland the corresponding figures were nearly identical to the declines within the region, a fall from 3.5 to 1.9, a drop of 46 percent. Most of this fall in output was concentrated in the public sector, with drops in output from 68,382 to 31,741 units (a fall of 54 percent) in cooperative units and from 15,434 to 3,842 communal units (a fall of 75 percent) between 1990 and 1994. As discussed in Chapter 2.0 of the main report, the failure of the housing sector to recover in line with GDP is a result of many factors in Poland, including demand and supply constraints, the continued strong role of the public sector, and the failure of housing reforms to proceed as rapidly as in other sectors of the economy.

A major feature of the economic transition has been the relative decline in the role of the public sector in the economy, with a concomitant rise in the share if not the level of private sector activity. This is reflected, most particularly for the housing sector, in dramatically shrinking subsidy budgets for both on- and off-budget subsidies. In Poland housing subsidies as a share of the government budget fell from 9.9 percent in 1990 to 6.2 percent in 1994, with even a sharper drop in on-budget subsidies (from 7.9 to 2.0 percent of government budgets, which were themselves shrinking) which have been the principal source of support for initial capital grants used for the construction of cooperative housing.

Structural shifts in economic activity among sectors of the economy have also affected levels of housing activity. In transitional economies as a whole, dramatic shifts have occurred, with general declines in activity in the industrial, agriculture, and construction industries, and sharp rises in areas such as telecommunications and services. These trends are likely to continue for some time since they reflect one of the most fundamental ways in which the liberalization of the economies has allowed market signals to work, by shifting resources to sectors which were in relative terms suppressed during the period of central planning. Moreover, in Poland, not only has the construction sector declined in relative importance (from 8.2 percent of GDP in 1989 to 5.0 percent in 1994), but activity has shifted away from housing (from 50 percent in 1990 to only 35.4 percent in 1994).

Inflation rates at double and triple digit levels have been characteristic of the transition period in all transitional economies. This has discouraged the growth of financial systems, contributed to falling overall rates of investment relative to GNP, and has especially hampered the growth of long-term credit. It has moreover contributed to the decapitalization of many state financial institutions which funded sectoral lending such as housing. Attempts of central governments to avoid collapse of sectoral banks by purchases of “old,” essentially worthless, loans have diverted resources from other activities which could have more directly supported ongoing activities in the housing sector.

Privatization of industries and housing have been characteristic of most of the transitional economies, although with large differences among countries of the region. Poland, for example, privatized only about 6 percent of its stock of public rental dwellings between 1990 and 1994, while the average degree to which such units were privatized among all the transition economies over the same period was 31 percent. With some 25 percent of the stock in Poland still public rental housing with rents well below market levels, demand for new units is depressed relative to the situation that would occur were either more housing privately rented or rents closer to market levels.

In many of the Central and Eastern European economies, central governments have relinquished control of state housing to local governments, along with the responsibility, in whole or in part, for continuing the heavy operating subsidies associated with such housing. In some cases local governments have elected to privatize such housing at giveaway prices simply to avoid continued subsidy burdens; in other cases, local governments have elected to hold on to such stock, motivated by social, political, or fiscal concerns. Whatever the reasons for holding on to this stock, putting state housing in the hands of local authorities appears throughout much of the region to have inhibited more rapid privatization.

**Changes in housing sector outcomes.** The most evident change in the performance of the sector throughout the region is the “move to market” associated with both institutions and policies, on the one hand, and housing outcomes on the other. Evidence of this move is, however, highly variable among the countries of the region. Poland, despite good progress in many aspects of economic reform, has tended to lag behind the most vigorous of the reformers with respect to housing reforms, and has, as a result, continued to experience lagging sectoral performance.

Among the more vigorous reformers, the evident moves to market within the housing sector include (1) a closer linkage between the demand side of the economy and prices and housing production and investment, resulting in both cyclically and structurally declining housing production and investment, (2) some evidence of decreasing sales prices of housing as markets have begun to open up, (3) increases in utility charges toward levels consistent with world prices and cost recovery, (4) privatization of state housing, with attendant increases in rates of ownership, (5) decreases in subsidies for housing to more sustainable levels, (6) reorganization of the building industry toward more numerous, smaller firms, and (7) shifts in interest rates from negative to positive in real terms among financial institutions. Poland does not yet fit this overall profile in its entirety and also did not in 1994. For example, at the present time sales prices have not decreased, privatization has been slow, and in most gminas rents have not increased sufficiently to cover current costs in most gminas. On the other hand, utility charges have increased, interest rates in private sector housing finance are now at market levels, and production by private developers is increasing.

**Linkages between demand and supply.** In market economies the housing sector is heavily influenced by the performance of the overall economy. Housing investment, output, and related construction employment all move up and down both with cyclical swings in the economy and in response to structural shifts. Among many of the transitional economies, the sorts of declines in output and investment experienced since the beginning of the transition are not surprising in light of decreasing demand by governments for housing (as evidenced by reductions in subsidies for housing), shifts of resources within the economy — away from industry and construction and toward previously suppressed sectors such as telecommunications and services — and low or negative real income growth by a majority of households. Were this combination of factors to occur in any market-oriented economy, declines in investment and production comparable to those experienced in many countries of the region would be expected. As noted above, Poland's macro-economic recovery in the early years of the transition make it somewhat of an anomaly in comparison with the other Central European countries. As seen in Table A.2, in 1992, only Poland among the Central European countries had a positive rate of growth. In 1993, only Slovenia had joined Poland in reversing previous absolute declines. **Thus, after five years of steady growth, the last three of which were exceptional, it would be expected that Poland's housing production would have evidenced a more robust response.**

Notwithstanding these declines, however, there is considerable anecdotal evidence to suggest that shifts in construction from new large scale construction toward self construction and rehabilitation have begun to occur, which might be offsetting declines in new construction to a considerable degree — though to an extent not likely to have been adequately captured in official statistics. Indeed, this sort of shift from new construction to modification of the existing stock is an expected response of a market which has in relative terms amply provided housing space in relation to the incomes of most transitional economy citizens, but which has limited variety and high-end elements of housing quality, and has had significant problems of deferred maintenance.

Again, Poland appears to fit this picture only in part. There has indeed been a definite trend away from large scale state-assisted construction toward private developers. As noted in Chapter 2.0 of the main report, the percentage of new construction undertaken by individuals and developers in Poland increased from 36.6 percent in 1989 to 52.4 percent in 1996 (see Table 2.1). With regard to rehabilitation, however, estimates by Poland's Housing Institute suggest that a significant number of units should be demolished and that the need for renovation and rehabilitation is very considerable (refer to the discussion in Chapter 5.0).

In Poland, a “full recovery” of the housing sector to levels of output and investment of the pre-transition years appears to be unlikely any time soon. Econometric estimates of the “expected” levels of investment and output suggest that housing investment might be expected to be between 3 and 3.5 percent of GDP given Poland’s current rate of economic growth and demographic pressure — well below the 5.2 percent experienced in 1990, but above the 1.8 percent of 1994.<sup>16</sup> On the other hand, the rate of housing output per 1000 people, based on Poland’s economic and demographic conditions, might be expected to be somewhat higher than the pre-transition output — between 5 and 6 units per 1000 people, a level consistent with that experienced during the early 1980s.<sup>17</sup> These discrepancies in investment and output projections reflect conditions that exist between investment, output, and their economic and demographic determinants in market-oriented economies and imply, in effect, that market economies tend, in relative terms, to invest less but to produce more units annually than does Poland. This conclusion is consistent with the observation made above that housing in Poland and the other transitional economies is of better quality and less crowded than housing in market economies with similar characteristics. If the move to market in Poland takes the form of a move toward that of “typical” market economies with similar characteristics, then one should expect to find output increasing, perhaps rapidly, but with a shift in the distribution of units toward those smaller and less costly per square meter than those that have in the past been offered.

Such a move is, however, inconsistent with current trends; exactly the opposite trend is being observed — a move toward the production of larger, costlier units than have been typical in recent years. For example, the average size of newly built dwellings in Poland increased from 77 square meters in 1990 to 89 square meters in 1994, a trend consistent with that observed in every transitional economy. This shift is the evident product of pent-up demand for large, higher quality units, many of them being demanded by the emergent entrepreneurial class.

**Changes in utility prices and rents.** A major adjustment in prices seen generally throughout the region is that of utility charges which have moved upward toward world price levels and in the direction of greater cost recovery. Table A.3 illustrates changes in rents and utilities within the Central European region. Overall, utility costs, which took 5 percent of consumer budgets throughout the region in 1990, took 12.4 percent by 1994. Rents, on the other hand, showed considerably less movement throughout the region. Thus, gross rent, inclusive of utilities, rose by a smaller relative amount — from 7.4 percent to 15.1 percent — a figure still well below the average rent-to-income ratio among income comparators, 20.5 percent. These general figures, however, conceal wide variations within the region in the pricing of both rents and utilities. In some countries, utility costs rose to between 10 and 20 percent of income, effectively preempting shares of consumer budgets that could have been used instead to pay higher rents.

In Poland, both rents and utility charges (relative to income) were generally below the regional average. While gross rents relative to incomes doubled, from 6.0 to 12.9 percent, utility costs accounted for most of the increase, increasing from 5.0 to 11.1 percent of incomes. In contrast, in

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16 This estimate is based on a regression equation relating the ratio of housing investment to GDP to the level of GDP per capita, the square of GDP per capita, the household formation rate, households per dwelling unit, household size, the rate of change of GDP per capita, and a measure of the degree to which housing finance policies and institutions are judged to be “enabling” (based on measures presented in Angel and Mayo, *op.cit.*). The sample was based on market-oriented economies using data from the Housing Indicators Program.

17 This estimate is also based on a regression equation relating output per 1000 people to the same independent variables as those cited in the previous footnote, using the same sample.

Hungary and Slovakia, increases in utility costs have left little room for further increases in rents to rationalize rent levels. In Poland, gross rent levels appear to be low enough to permit further increases in both utility costs and rents — which would be extremely desirable to more fully recover costs and to create incentives for efficient use of resources. Either sort of adjustment must, however, be done in line with a careful evaluation of overall strategies for cost recovery, subsidies, and the degree to which utilities, rent, and other elements of consumer budgets are to be treated as part of the social safety net.

**Table A.3**  
**The Ratio of Housing Expenditures (rents and utilities) to Income**  
**in the Public Rental Sector in 1990 and 1994**

COUNTRY	Rent-to-Income Ratio		Utility Expense-to-Income Ratio		Gross Rent-to-Income Ratio	
	1990	1994	1990	1994	1990	1994
Czech Republic	2.7	3.1	3.9	7.8	6.6	10.9
Hungary	5.0	3.8	5.0	19.7	10.0	23.5
Poland	1.0	1.8	5.0	11.1	6.0	12.9
Slovakia	5.0	5.3	7.2	14.7	12.2	20.0
Slovenia	N.A.	5.2	N.A.	9.1	N.A.	14.3
<b>Total</b>	2.4	2.7	5.0	12.4	7.4	15.1

Source: Hegedus, Mayo, and Tosics, *op.cit.*, p.17.

**Privatization of state housing.** The early years of the transition have seen, in general, a very substantial degree of privatization of the public housing stock throughout the region. In the region as a whole, more than 3 million flats have been sold to sitting tenants — nearly one-third of the 1990 public housing stock. As a result of this transfer, the share of the public and semi-public rental sector has declined from 33.0 to 23.5 percent of the stock between 1990 and 1994. In most cases, this was the result of essentially “giveaway” privatization with sales at less than 15 percent of the market value. In most countries, privatization was administered at the national level, but in the Czech Republic, Latvia, and Poland privatization decisions were devolved to the local level. In countries where privatization was done at the national level, the majority of the housing stock has been privatized, with, for example, Albania and Romania having privatized 94 percent and 84 percent of public stocks in just four years. In Hungary and Slovenia 40 percent and 74 percent have been privatized in a comparable period. But in countries where privatization has devolved to the local level, privatization has not been accomplished. By 1994, the share of the public stock which had been privatized in the Czech Republic, Latvia, and Poland was only 1.4 percent, 0.0 percent, and 6.0 percent respectively. Slowness in privatization hampers attempts to create well-functioning property markets and perpetuates inefficient patterns of utilization of the housing stock. Consequently, countries such as Poland would be well advised to speed efforts to either sell or give to existing tenants the remaining shares of public housing, while at the same time rationalizing subsidy systems to maintain some share of public housing as a residual stock of social housing.

**Decreases in subsidies for housing to more sustainable levels.** The general withdrawal of the public sector from the housing sector throughout the region has been noted above. In countries where data are available for 1990 and 1994, subsidies to housing as a share of government budgets declined from 12.1 to 4.5 percent in Hungary, from 14.2 to 2.1 percent in Latvia, and from 9.9 to 6.2 percent in Poland. While these data may be somewhat imprecise, it should be noted that there has been a less significant decline in subsidies in Poland than in the other countries for which data available. Poland's subsidy budget is the highest relative to government budgets throughout the region, and the budget share for housing is still well above the level of most reporting income comparators — a median of about 1 percent of government budgets in 1990. These observations are consistent with the observation above that Poland has been slower to privatize its public stock and has raised public sector rents and utility charges less rapidly than has been the case in other countries of the region. As noted above, these decisions impede the rate at which a well-functioning housing market can emerge, while the maintenance of high subsidy levels represents a continuing fiscal drag on the government budget that is likely to aggravate inflationary tendencies.

**Reorganization of the building industry.** Restructuring of the building industry has proceeded extremely rapidly during the transition. In 1980 some 55 percent of new housing was produced by the public sector throughout the region, with another 16 percent produced by cooperatives where the public sector was heavily involved in design and production. The rest was private, mainly self-help, construction — 29 percent of the total output. By 1994, public construction had fallen to 20 percent, cooperative production had risen to 20 percent, and private production had risen to 58 percent. In Poland, public sector construction fell from 46 percent of the total in 1980 to 10 percent in 1994; the share of cooperative housing increased from 28 percent to 42 percent and the share of private housing from 26 percent to 48 percent, respectively, generally in line with trends throughout the region. Accompanying these trends has been a dramatic shift in the average size of firms engaged in construction. For example, in the Czech Republic in 1990, firms with fewer than 200 employees accounted for just 0.2 percent of output of the Czech construction industry and firms with over 2000 employees accounted for about 56 percent of output. By 1994, these positions were reversed, with small firms accounting for 55 percent of output and large firms accounting for 16 percent. Continuation of these trends is likely to result in dramatic gains in efficiency of the construction industry, with the ability, when the move toward producing more economical, smaller dwellings occurs, for the building industry to adapt relatively quickly to shifting patterns of demand.

**Shifts in interest rates from negative to positive in real terms among financial institutions.** Another aspect of the move to market within the region is the nearly universal tendency of financial institutions to adjust lending and deposit rates toward market rates of interest. As noted above, in 1990 lending rates for housing by formal financial institutions were negative throughout the region. By 1994 lending institutions in all of the countries of the region except Bulgaria reported lending rates higher than deposit rates — with an average spread of 9.9 percentage points. The reported spread in Poland is estimated to have changed from -115.6 percent to +9.5 percent over this time period. Notwithstanding this move toward market-based lending, interest rate spreads of nearly 10 percent are extremely high — well above rates found in market-oriented economies. Explanations for such high spreads are to be found in both the high administrative costs and inefficiencies associated with reorganization of institutions based on new market-oriented principles and in the continuing high inflation rates throughout the region — which increase uncertainty and call for compensatory premia to be paid by borrowers. While positive lending rates are certain to lead to more efficient allocation of financial resources and to healthier financial institutions, the continuation of high interest rate spreads will continue to exert powerful dampening effects on demand for housing. The role of macroeconomic policy in reducing inflation is critical to bringing down both overall interest rates and lending spreads and to allowing demand for housing to increase.

## Conclusion

The moves to market attendant with the first phase of the transition have been clear, but highly uneven among countries. Poland represents an example of more modest change than that of many other countries in the region, especially as regards privatization, rent and utility price reform, subsidy restructuring to better earmark subsidies, and the opening and restructuring of the housing finance system. These factors have restrained the sector from playing as full a role as might be possible in the ongoing process of social and economic reform. Costs continue to be incurred in terms of depressed sectoral activity, price distortions which are propagated beyond the housing market to labor markets, downward pressure on housing quality (or increases in housing deterioration), and retarded financial sector development.

While it might be argued that in some countries of the region some housing reforms have gone too far, too fast (as in the case of massive privatization without adequate legal arrangements for condominium laws or provision of residual “safety net” public housing in countries like Romania and Lithuania), in Poland the situation has been more one of not far enough, or too slow. Reasons for this are complex. Often enabling legislation has been passed but not implemented or considered but not passed. Sometimes the inability of local authorities to take on new responsibilities for making and implementing housing policy and for administering public housing have slowed the reform process. In any case, it appears that in comparative terms, there is room for considerably greater efforts in Poland to move forward with any of the reforms which it has begun but which have proceeded farther and faster in other countries within the region. The benefits of a faster pace of reform appear to far outweigh the costs of a slower pace.

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# ANNEX B — POLAND IN NUMBERS

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# Introduction

This Annex provides supportive material for the analysis presented in main report — *Building on Progress: The Future of Housing Finance in Poland*. Section 1 provides the reader with an overview of the housing sector and presents selected information on the characteristics of the housing sector, including data on tenure, quality, construction activities, state housing subsidies, and household expenditures attributed to housing. The second section contains information on the public rental sector and the housing allowance program in Poland. Since its introduction at the beginning of 1995, the Ministry of Spatial Economy and Construction (MOSEC) has monitored the allowance program; also, the Housing Institute has provided ongoing analysis, as noted below. Early data on the program are now available as well as data on rent setting policies attributed to gminas. The third section of the Annex provides the reader with a comparative analysis of the housing situation in Poland with four other Central European countries — the Czech Republic, Hungary, Slovakia, and Slovenia. This serves as a point of reference for Poland's transition by contrasting developments in the macro economy and housing sector in Poland with those in neighboring countries undergoing similar macroeconomic adjustment, and supports the analysis presented in Annex A.<sup>18</sup>

## Housing Sector Data

Data on a wide range of housing indicators is generally available in Poland. A major source of data is the Central Statistical Office or Główny Urząd Statystyczny (GUS), which tracks data on the housing sector and publishes a wide array of Statistical Bulletins. As part of their overall data collection activity, GUS conducts special surveys on a periodic basis, such as the 1995 household survey administered to approximately 14,000 randomly chosen households throughout Poland. The survey results are made available in both standard published tabulations and special tabulations, customized data based on user needs.

Another source of data on housing is the Housing Institute (IGM) located in Warsaw. The Institute publishes information on a periodic basis on selected housing indicators. Many of these indicators are derived from the Institute's efforts to monitor housing developments in 120 gminas on an ongoing basis. These gminas are divided into five population groups: all gminas with 100,000 and more residents (except the city of Warsaw) and select gminas with 50,000-100,000, 20,000-50,000, 5,000-20,000, and less than 5,000 residents. The data are analyzed by Institute staff and reported in a series of *Monitoring Reports*. In addition, the Institute conducts specialized analyses based upon a variety of needs for clients including MOSEC, individual gminas, and voivodships.

The Warsaw Statistical Office is also a source of housing indicators for the city of Warsaw, and publishes a comprehensive annual report (*Warsaw Housing Report*) that lists numerous indicators related to housing, including data on rent arrears, housing allowances, condominium formation, and municipal finances. This publication is available in both Polish and English.

In summary, the *Monitoring Report* series issued by the Housing Institute, the *Warsaw Housing Report* issued by Warsaw Statistical Office, and GUS publications provide a fairly comprehensive set of indicators on the housing conditions in Poland. This Annex does not attempt to reproduce the extensive analysis of the Polish housing sector found in these publications. It presents, selectively, recent data available on housing conditions in Poland. Following some of the tables is a short commentary that describes key findings presented in the table and their relevance to the housing sector as a whole or to housing finance in particular.

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<sup>18</sup> Much of the data for Section 3.0 was drawn from Hegedus, Mayo, and Tosics, 1966. Refer to the bibliography following Annex A.

**SECTION 1**  
**GENERAL INDICATORS OF HOUSING CHARACTERISTICS**

**TABLE 1-1**  
**POPULATION, OCCUPIED HOUSING UNITS, AND AVERAGE NUMBER OF PERSONS**  
**PER UNIT**  
**Poland, 1980, 1988, and 1994**

INDICATOR	1980	1988	1994
Population ( '000 )	35735.0	37330.6	38581.0
Housing Units ( '000 )	9793.7	10717.0	11433.9
Average Number of Persons Per Unit	3.6	3.5	3.4

Source: IGM, GUS, 1996

- Population increased by 8 percent from 1980 to 1994; the number of housing units increased at a faster rate (17 percent) over the same period. Over the 1988 to 1994 period, growth in the number of housing units was about 6 percent while population growth was about 3 percent. Thus, the average number of persons per unit has decreased slightly since 1980.

**TABLE 1-2**  
**DISTRIBUTION OF HOUSING BY TENURE TYPE**  
**Poland, 1990 and 1994**

TENURE	1990 (percent)	1994 (percent)
Public Rental	29.7%	25.4%
Private Rental	5.2	5.2
Cooperative Tenant	14.2	13.5
Cooperative Ownership	10.7	14.2
Owner - Occupied	40.2	41.7
TOTAL	100.0%	100.0%

Source: IGM, 1996

- Over the 1990 to 1994 period there has been a slight shift among tenure groups. This has resulted from a relative shift in production from the public to private sector and privatization of the stock.

**TABLE 1-3**  
**HOUSING PRIVATIZATION AND RESTITUTION**  
**Poland, 1992-1994**

INDICATOR	1992	1993	1994
Dwellings sold to sitting tenants as a percent of the total number of dwellings owned by public sector.	0.73%	2.90%	5.99%
Dwellings sold to private persons as a percent of the total number of dwellings owned by public sector.	0.56	1.39	2.60
Dwelling returned to the former rightful owner as a percent of the total number of dwellings owned by public sector.	0.72	0.84	0.95
<b>TOTAL PRIVATIZATION (% of Stock)</b>	<b>2.01%</b>	<b>5.13%</b>	<b>9.54%</b>

Source: IGM, 1996

- ▶ The overall housing privatization rates are low as compared with some transition countries but the pace gained some momentum between 1992 and 1994.

**TABLE 1-4**  
**HOUSING QUALITY CHARACTERISTICS**  
**Poland, 1994**

DWELLINGS EQUIPPED WITH:	Public Rental Housing		Cooperative Housing %	Owner-Occupied Housing %	Total (% of total stock)
	Communal %	Enterprises %			
Piped Water Supply	93.0	95.2	100.0	67.2	84.2
Piped Sewer Supply	74.5	84.2	99.9	50.5	71.5
Bathroom	68.3	83.2	99.8	54.4	71.5
District Heating	42.7	59.8	98.4	0.7	40.2
Other Central Heating	7.7	9.3	0.4	44.2	21.2
Individual Modern Heating	49.6	30.9	1.2	55.1	38.6

Source: IGM, 1996

- ▶ Housing conditions in communal housing seem to be of a lower standard than in cooperative housing but no worse than owner-occupied housing. Indeed, owner-occupied housing, located mainly in the rural areas, exhibits the worst housing conditions among the tenure groups with regard to the piped water, piped sewer, and bathrooms indicators.

**TABLE 1-5**  
**DISTRIBUTION OF HOUSEHOLD EXPENDITURES ON HOUSING: 1995**  
 Percent of Expenditures by Tenure Categories  
 Poland, 1995

HOUSING EXPENSE CATEGORY	Tenure Type			
	Municipal	Enterprise Corporate Housing	Cooperative	Condominiums
Rent	23.3%	23.4%	0.1%	16.5%
Maintenance	0.0	0.0	16.3	6.7
Cold Water and Sewage	9.3	9.1	9.5	8.9
Sanitary Tanks	3.3	2.6	1.8	2.8
Hot Water	17.6	17.7	16.6	18.2
Central Heating	45.4	45.3	50.0	44.8
Real Property Tax	0.2	0.1	1.0	0.3
Lift	0.1	0.4	1.0	0.8
Other	0.8	1.4	3.7	0.8
TOTAL EXPENDITURES	100.0%	100.0%	100.0%	100.0%

Source: GUS, 1996

- ▶ Household expenditures for housing are dominated by heating and hot water. Rent, on the other hand, constitutes less than one quarter of total housing expenditures.

**TABLE 1-6**  
**DISTRIBUTION OF TOTAL PER CAPITA MONTHLY EXPENDITURES**  
 Poland, 1994-1996

YEAR	Percent of Total Per Capita Expenditure on:						
	Housing and Utilities	Food, Alcohol and Tobacco	Education Culture Sports	Health and Personal Hygiene	Clothing and Footwear	Trans. and Comm.	Other
1994	20%	40%	9%	6%	7%	10%	8%
1995	20	41	9	6	8	9	7%
1996 (q.2)	19	39	6	6	7	13	10%

Source: GUS, 1996

- ▶ Housing expenditures as a share of all household expenditures in Poland remains at about 20 percent.

**TABLE 1-7**  
**HOUSING SUBSIDIES**  
**(PLN '000)**  
**Poland, 1994-1997**

CATEGORY	1994	1995	1996	1997
	Actual Expenditures (PLN '000)		Budgeted (PLN '000)	
Purchase of Accrued Interest	751,000	830,000	1,223,108	1,050,000
Refund of Interest Premia on Home Saving Accounts	1,405,000	1,126,000	1,196,050	1,071,030
Participation in the Mortgage Fund	1,000	6,000	50,500	25,000
National Housing Fund	0	59,000	120,000	120,000
Land Infrastructure Development (SPEC)	89,900	89,600	55,000	90,000
Housing Allowances	39,000	229,000	460,000	430,000
Repayment of Loans for Land Infrastructure	330,000	215,000	215,000	320,000
Reimbursement of Expenses Connected with Land Infrastructure Development Borne by the Cooperatives and Gminas	90,000	90,000	149,300	90,000
Compensations for Candidate Members of the Cooperatives	25,000	32,000	39,165	291,863
Subsidies to the Cooperatives (Including Costs of Heating and Hot Water)	449,600	435,700	405,661	398,718
Subsidies to the Cooperatives for Thermal Renovation of Buildings	0	0	40,000	50,000
Subsidies to the Municipal Sector	51,500	39,100	46,249	61,086
Subsidy to "Katowice Project"	0	0	10,000	10,000
<b>TOTAL SUBSIDIES</b>	<b>3,231,900</b>	<b>3,160,600</b>	<b>4,010,030</b>	<b>4,007,700</b>

Source: Estimate made by the Council of Ministers at the request of the Polish Parliament.

- Payment of subsidies accrued under the past housing delivery system and payment of subsidies to co-ops were major budgetary items in 1994 and 1995. Estimates for 1996 and 1997 indicate a large share of housing subsidies will continue to be accumulated for costs incurred by past housing policies.

**TABLE 1-8**  
**PROJECTED STATE HOUSING SUBSIDIES AS PERCENT OF**  
**TOTAL STATE EXPENDITURES AND GROSS DOMESTIC PRODUCT**  
**Poland, 1995-2000**

INDICATOR	1995	1996	1997	1998	1999	2000
	%	%	%	%	%	%
Housing Subsidies as Percent of Total State Expenditures	4.6	5.8	6.9	8.5	9.9	11.1
Housing Subsidies as Percent of GDP	1.7	2.0	2.3	2.7	2.9	3.1

Source: Special tabulations for Council of Ministers, 1996

- ▶ The current government plans to increase its share of spending on housing subsidies through the year 2000. It is expected that the share of housing expenditures in gross output will rise over this same period.

**TABLE 1-9**  
**NUMBER OF HOUSING UNITS COMPLETED AND AVERAGE SIZE OF UNIT**  
**Poland, 1990, 1994, 1995**

	Number of Units Completed ('000)			Average Usable Floor Space m <sup>2</sup> Per Unit	
	1990	1994	1995	1994	1995
Total Units	134.2	76.1	61.0	88.5 m <sup>2</sup>	91.8 m <sup>2</sup>
Cooperatives	68.4	31.7	23.7	63.0	60.5
Enterprises	15.4	3.8	1.9	64.0	63.4
Communal	2.9	3.6	2.3	47.0	48.9
Other (Private)	n/a	1.4	2.1	69.2	61.7
Self Built	47.4	35.5	31.1	118.8	122.6

Source: GUS, 1995

- ▶ There was a 20 percent (15,000 units) decrease in the number of housing units completed between 1994 to 1995, and a 54 percent drop between 1990 and 1995. Much of this drop in housing completions can be attributed to falling output by housing co-ops. Self-built housing also fell while private contract development of housing increased over the one year period. There is a demand for larger units among households who chose to build their own housing.

**TABLE 1-10**  
**DISTRIBUTION OF NEW UNIT CONSTRUCTION BY TYPE OF BUILDER**  
**Poland, 1989-1995**

TYPE OF HOUSING	1989	1990	1991	1992	1993	1994	1995
Communal	3.1%	2.2%	1.9%	2.7%	4.9%	4.7%	4.9%
Enterprise	15.2	11.5	7.8	6.2	6.8	5.0	3.8
Cooperative	45.1	50.0	61.0	63.4	53.0	41.7	39.9
Private	36.6	36.2	29.3	27.7	35.3	48.6	51.4
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: GUS, 1995

- ▶ Data over a six year period show a dramatic shift in the distribution of the type of builder in the housing sector in Poland. As a share of total housing production, new housing built by the private sector grew from 36 percent in 1989 to 51 percent in 1995, while the share of overall housing completions by co-ops and enterprises decreased over this same period.

**TABLE 1-11**  
**NON-SUBSIDIZED HOUSING LOANS AND AVERAGE LOAN SIZE**  
**Poland, 1995-1996**

ISSUING BANK	Time Period Includes 1995 Through	Number of Loans	Value of Loans (PLN '000)	Average Loan Amount (PLN)
PKO BP	Oct. 1996	14,509	352,662	24,300
PamBank	Oct. 1996	496	28,000	56,400
Mortgage Fund	Sept. 1996	300	21,000	70,000
TOTAL		15,305	401,660	26,250

Source: PamBank, PKO BP, BUD-Bank, 1996

- ▶ This table shows the number of non-subsidized housing loans in Poland issued between 1995 and late 1996 by the banking system. The greater share of loans were issued by PKO (93 percent) with the lowest amount per loan among the issuing banks.

**SECTION 2**

**THE PUBLIC RENTAL SECTOR AND THE HOUSING ALLOWANCE PROGRAM**

**TABLE 2-1  
PUBLIC RENT LEVELS BY SIZE OF MUNICIPALITY  
Poland, 1995**

TOWN SIZE (‘000 OF RESIDENTS)	Monthly Rent Per Square Meter (PLN)		
	Lowest	Average	Highest
10 & Below	0.32	0.48	0.68
10.1 - 50.0	0.30	0.52	0.75
50.1 - 300.0	0.29	0.59	0.79
Above 300	0.22	0.70	0.96

Source: IGM, 1996

- ▶ This table shows the lowest, average, and highest rent costs among municipal housing units in Poland. The most variation is found in municipalities with populations above 300,000 persons. These figures reflect rent levels administered by gminas since the new Rent and Housing Allowance Law devolved rent setting policy to gminas at the start of 1995.

**TABLE 2-2  
MAINTENANCE COSTS FOR MUNICIPAL RENTAL UNITS  
Poland, 1995**

TOWN SIZE (‘000 OF RESIDENTS)	Costs (PLN Per Square Meter)			Funding		
	Total	Operation	Current Maintenance	From Rent and as Percent of Costs		From Other Subsidies
				PLN/m <sup>2</sup>	Percent	Percent
10 & below	0.90	0.67	0.23	0.69	77%	23%
10.1 - 50.0	1.1	0.81	0.29	0.83	75	25
50.1 - 300.0	1.32	0.97	0.35	0.92	70	30
Above 300	1.48	1.02	0.46	1.03	70	30

Source: IGM, 1996

- ▶ At current rent levels, only about seventy percent of the maintenance and operation costs are covered by rent payments. The remainder is subsidized by gminas from other sources of income. These calculations are not based on “adequate” levels of maintenance, nor do they take into consideration deferred maintenance and capital repair costs. The relationship between operating costs and size of municipality is positive; it costs more to operate public housing in larger municipalities than it does in smaller municipalities. Though rent levels are lower in smaller municipalities, revenue from rent can cover a somewhat larger share of the maintenance and operation costs.

**TABLE 2-3**  
**DISTRIBUTION OF OPERATION AND MAINTENANCE COSTS**  
**Poland, 1995**

HOUSING TENURE	Types of Costs (Percent)						
	Total	Water and Sewage	Solid Waste	Cleaning	Administrative	Local Taxes	Other
Municipal	100%	28%	9%	16%	28%	5%	14%
Cooperative	100%	31	7	16	27	8	11

Source: IGM, 1996

- ▶ There is very little difference among the distribution of costs for municipal and cooperative housing.

**TABLE 2-4**  
**HOUSING ALLOWANCE RECIPIENTS BY TOWN SIZE**  
**Percent of Total Households Receiving Allowances**  
**Poland, 1995-1996**

TOWN SIZE ('000 OF RESIDENTS)	June 1995	December 1995	March 1996
10 & Below	14.0%	14.0%	15.6%
10.1 - 50.0	12.2	13.7	14.0
50.1 - 300.0	6.8	6.6	6.4
Above 300	4.4	4.5	4.8

Source: IGM, 1996

- ▶ Early data are available for analysis of the housing allowance program. This table shows that there are proportionally more housing allowance recipients in smaller towns than there are in larger ones. These differences may reflect income differences and other (unit) eligibility characteristics, but also may reflect a lack of knowledge about the program or administrative difficulties in setting up a new program.

**TABLE 2-5**  
**HOUSING ALLOWANCE DISTRIBUTION BY TENURE TYPE**  
**Poland, 1995**

	<b>1995 Housing Allowance Recipients Distribution (Percent)</b>
Municipal	27%
Cooperative	35
Enterprise - Owned	10
Private and Other	28
<b>TOTAL</b>	<b>100%</b>

Source: IGM, 1996

- ▶ About one quarter of all housing allowance recipients reside in municipal housing. This figure is not surprising since many elderly on fixed incomes reside in this type of housing. But what is surprising is the relatively high share of recipients who live in cooperative housing (35 percent); this share is higher than the share of all households who reside in cooperative housing (27 percent).

**TABLE 2-6**  
**MUNICIPAL SHARE OF HOUSING ALLOWANCE EXPENDITURES**  
**Poland, 1995**

<b>TOWN SIZE (‘000 OF RESIDENTS)</b>	<b>Municipal Contribution (Percent)</b>	<b>As Percent of Total Municipal Expenditures</b>
10 & Below	60.6%	4.6%
10.1 - 50.0	58.0	4.9
50.1 - 300.0	53.6	2.4
Above 300	47.6	1.3

Source: IGM, 1996

- ▶ This table shows that as the size of the municipality increases, their share of the housing allowance payment decreases. This result may be expected since program cost sharing formulae dictates that municipalities with a high percentage of communal housing contribute less toward housing allowances costs than municipalities with a small share of communal housing.

**TABLE 2-7**  
**PLANNED HOUSING CONSTRUCTION BY TYPE OF HOUSING - SELECT GMINAS**  
**Poland, 1996-1998**

TOWN SIZE ('000 OF RESIDENTS)	Planned Municipal Housing Construction Number of Municipalities Planning Construction for:			
	For Sale	Regulated Rental	TBS	TOTAL NUMBER OF MUNICIPALITIES
10 & Below	7	15	2	24
10.1 - 50.0	7	6	1	14
50.1 - 300.0	8	8	1	17
Above 300	4	13	4	21
TOTAL NUMBER OF MUNICIPALITIES	26	42	8	76

Source: IGM Housing Monitoring Report, 1996

- ▶ This table reports the number of municipalities that plan different types of housing projects. Those municipalities that plan to build new housing prefer to build public rental housing.

**TABLE 2-8**  
**MARKET PRICES OF HOUSING: SALE PRICE AND RENT**  
**Poland, 1996**

TOWN SIZE:	Sale Price of 1 Square Meter of Usable Floor Area (PLN)		Monthly Rent for a Standard Apartment of 50 Square Meters (PLN)	
	Lowest - Highest	Most Common	Lowest - Highest	Most Common
Above 100,000 Residents				
Bytom	200 - 400	300	300 - 400	n/a
Kraków	864 - 1800	1300	500 - 2000	600
Lublin	1200 - 1400	1250	300 - 450	350
Łódź	102 - 792	n/a	300 - 750	450
Poznań	1000 - 2100	1200	450 - 600	500
Toruń	780 - 1100	900	250 - 350	300
Warszawa	1400 - 3200	n/a	700 - 1600	n/a
25,000 - 100,000 Residents				
Dzierżoniów	400 - 800	700	120 - 500	150
Inowrocław	500 - 700	n/a	100 - 150	n/a
Lebork	189 - 635	480	150 - 400	250
Piła	650 - 800	750	150 - 400	250
Stargard Szcz.	320 - 922	385	250 - 500	400
Under 25,000 Residents				
Brzesko	320 - 450	400	100 - 250	150
Kolo	800 - 1100	900	250 - 350	350
Mragowo	350 - 800	600	100 - 250	150
Pruszcz Gd.	620 - 1500	1100	200 - 450	250
Sierpc	800 - 1100	1000	200 - 350	300

Source: IGM, 1996

- This table shows that, in general, as the size of the municipality increases, the cost of renting housing also increases. This type of positive correlation is not so evident when comparing the cost of purchasing housing and size of the municipality.

**SECTION 3**

**COMPARISONS OF SELECT MACROECONOMIC AND  
HOUSING INDICATORS IN CENTRAL EUROPE**

## Changing Conditions in Poland and Comparisons with Central Europe

As discussed in Annex A, during the transition period many new reforms have been instituted in the housing sector throughout the region. The legislation that has supported the transition towards a more market-oriented housing sector in Poland has involved the passage of the following laws by the national Parliament:

- *Land Management and Expropriation Law* (1985, amended 1990), addresses gmina-based land issues and housing pricing policy;
- *Physical Planning Law* (July 1994), provides for a more decentralized approach to the planning process;
- *Building Code Law* (July 1994), provides for a more efficient and timely process for housing construction regulation;
- *Local Taxes and Fee Law* (January 1991), sets the limits for property taxes and lays the foundation for the ad valorem system;
- *Law on Perpetual Books and Mortgages* (1982, amended 1991), transfers land register system to the courts decreasing transaction costs and constraining eviction procedures;
- *Law on Rent and Housing Allowances* (July 1994), allows gminas to determine rent up to a ceiling and provides for a system of housing allowances;
- *Condominium Law* (July 1994), clarifies property rights for owners who live in multifamily and mixed tenure buildings;
- *Communalization Law* (July 1994), defines the terms and conditions for enterprise housing divestiture;
- *Cooperative Law* (July 1994), defines the process for transferring the ownerships of co-op housing; and
- *Law on State Assistance to Housing Construction* (1995), creates a housing fund that will administer allocations to the TBSs or non-profit housing development entities along with funding a contract savings scheme.

There are additional laws that are under consideration, including the *Mortgage Bank Law* and a revised *Housing Allowance Law*. A new *Collateral Law* for immovable property is also contemplated.

**TABLE 3-1**  
**WAGES: NOMINAL AND REAL WAGE INDICES**  
**Central Europe, 1994-1996**

**Nominal Wages**

YEAR QUARTER	Corresponding Period of the Previous Year = 100.0			
	Poland	Czech	Hungary	Slovakia
1994	137.0	118.5	124.7	117.0
1995	132.9	118.5	116.8	114.3
1996 (q.2)	128.7	121.0	121.7	112.3

**Real Wages**

YEAR QUARTER	Corresponding Period of the Previous Year = 100.0			
	Poland	Czech	Hungary	Slovakia
1994	102.5	107.7	107.0	103.0
1995	103.9	108.6	87.8	104.4
1996 (q.2)	104.3	111.5	95.2	105.7

Source: IGM, 1996

- ▶ Real wages have risen during the 1994 to 1996 period in Poland. The Czech Republic and Slovakia have also made real gains in wage growth, while in Hungary, real wages have decreased over the 1994 to 1996 period.

**TABLE 3-2**  
**UNEMPLOYMENT RATES**  
**Central Europe, 1994-1996**

YEAR	Percent of Labor Force Unemployed			
	Poland	Czech	Hungary	Slovakia
1994	14.4%	3.8%	10.2%	13.3%
1995	13.3	3.6	9.3	12.8
1996 (q.2)	12.4	3.2	9.2	10.7

Source: Cestat Statistic Bulletin, 1996

- ▶ This table indicates that Poland suffers from relatively high unemployment rates compared to other Central European countries.

**TABLE 3-3**  
**GROSS DOMESTIC PRODUCT AND CONSUMER PRICE INDEX**  
**ANNUAL PERCENT CHANGE**  
**Central Europe, 1992-1996**

INDICATOR	Real GDP Growth					CPI Inflation				
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
Poland	2.6%	3.8%	5.0%	7.0%	6%	43%	35%	32%	26%	18%
Czech Rep.	-6.4	-0.9	2.6	4.8	4.2	11	21	10	10	9%
Hungary	-3.0	-0.8	2.9	1.5	0.5	23	22	19	29	20%
Slovakia	-7.0	-4.1	4.8	7.3	6.7	10	23	13	11	5%
Slovenia	-5.4	1.3	5.5	3.5	3.0	201	32	20	14	9%
Average	-0.7	1.6	4.3	4.8	4.1	37	30	25	18	12%

Source: Hegedus, Mayo, and Tosics, for 1992 through 1994 for GDP and through 1995 for CPI inflation; *Central European Economic Review*, Wall Street Journal Europe, Special Insert, March 1997, for GDP in 1995 and 1996 and for CPI in 1996.

**TABLE 3-4**  
**NOMINAL GDP, GDP PER CAPITA, AND PRIVATE SECTOR CONTRIBUTION**  
**Central Europe, 1996**

COUNTRY	Nominal GDP 1996	GDP Per Capita 1996	Private Sector as % of GDP 1996
Poland	\$129 billion	\$3,351	70%
Czech Rep.	51 billion	\$4,904	80%
Hungary	44 billion	\$4,272	60%
Slovakia	17 billion	\$3,148	60%
Slovenia	17 billion	\$8,750	40%

Source: The Wall Street Journal Europe, *Central European Economic Review*, Special Insert, March 1997. Refer to the discussion in Chapter 1.0 of the main report. Poland's GDP per capita income in 1996, estimated using the PPP method (purchasing power parity), is \$6,300-\$6,350, as estimated by GUS. Transition economies generally fare better in comparisons with Western economies when the PPP approach is utilized.

**TABLE 3-5**  
**DISTRIBUTION OF TENURE**  
**Percent Properties by Tenure**  
**Central Europe, 1990 and 1994**

COUNTRY	Public Rental Housing		Private Rental Housing		Enterprise		Owner-Occupied Housing		Cooperative Housing	
	1990	1994	1990	1994	1990	1994	1990	1994	1990	1994
Poland	29.7%	25.4%	5.2%	5.2%	14.2%	13.5%	40.2%	41.7%	10.7%	14.2%
Czech Rep.	29.6	27.6	0.9	4.7	10.4	6.1	40.3	42.2	18.8	19.4
Hungary	22.0	13.0	0.5	1.0	n/a	n/a	77.5	86.0	0.0	0.0
Slovakia	27.3	26.0	0.0	0.5	n/a	0.5	50.2	51.6	22.5	21.4
Slovenia	31.6	8.9	3.0	3.4	0.0	0.0	65.4	87.7	0.0	0.0
Average	28.2	23.1	3.0	3.9	9.3	8.2	48.5	52.0	11.0	12.8

Source: Hegedus, Mayo, Tosics, 1996

- Tenure distributions differ quite widely in Central Europe. In general, the trends suggest increased homeownership and decreased municipal rental stock. Slovenia and Hungary have made the greatest progress toward decreasing their share of public housing over the 1990 to 1994 period.

**TABLE 3-6**  
**PRIVATIZATION OF HOUSING**  
**Central Europe, 1990-1994**

COUNTRY	Public Housing 1990	Privatization To Sitting Tenant 1990-1994		Restitution 1990-1994	
	' 000 Units	' 000 Units	%	' 000 Units	%
Poland	3274	196	6.0	33	1.0
Czech Republic	1207	17	1.4	82	6.8
Hungary	848	339	40.0	0	0.0
Slovakia	483	11	2.3	1	0.3
Slovenia	208	146	70.0	5	2.2
TOTAL UNITS HOUSING	6020	709	11.8	120.8	2.0

Source: Hegedus, Mayo, Tosics, 1996

- Poland's privatization of public housing is not as extensive as in Hungary and Slovenia but greater than in the Czech and Slovak Republics (exclusive of restitution rates).

**TABLE 3-7**  
**RENT-TO-INCOME RATIOS**  
**Central Europe, 1990 and 1994**

COUNTRY	Rent to Income Ratio (Monthly Rent as % of Income)		Utility Expenses to Income Ratio (Utilities as % of Income)		Gross Rent (Rent + Utilities) Income Ratio (Total Cost as a % of Income)	
	1990	1994	1990	1994	1990	1994
Poland	1.0%	1.8%	5.0%	11.1%	6.0%	12.9%
Czech Republic	2.7	3.1	3.9	7.8	6.6	10.9
Hungary	5.0	3.8	5.0	19.7	10.0	23.5
Slovakia	5.0	5.3	7.2	14.7	12.2	20.0
Slovenia	n/a	5.2	n/a	9.1	n/a	14.3
AVERAGE RATIO	2.4	2.7	5.0	12.4	7.4	15.1

Source: Hegedus, Mayo, Tosics, 1996

- ▶ Relative to other Central European countries, Poland's rent to income ratio is low. Utility costs have risen more rapidly than rent in most of Central Europe.

**TABLE 3-8**  
**HOUSING CHARACTERISTICS**  
**Central Europe, 1994**

COUNTRY	Housing Units Per 1000 Persons	Square Meters Per Person	Persons Per Room	Piped Water (% of Units)	Bath or Shower (% of Units)
Poland	296	18.2	1.02	84.2	71.5
Czech Republic	397	25.5	1.04	96.9	90.9
Hungary	385	32.1	0.92	82.9	85.9
Slovakia	334	21.9	1.14	91.8	88.9
Slovenia	338	19.0	1.33	97.4	86.6
AVERAGE	330	22.4	1.02	87.4	79.6

Source: Hegedus, Mayo, Tosics, 1996

- ▶ Poland's relative position among Central European countries with regard to housing quantity and quality was poor in 1994.