Addressing housing market challenges in the Slovak Republic

Category: Housing,Slovakia,Uncategorized
written by oecdecoscope | March 18, 2024

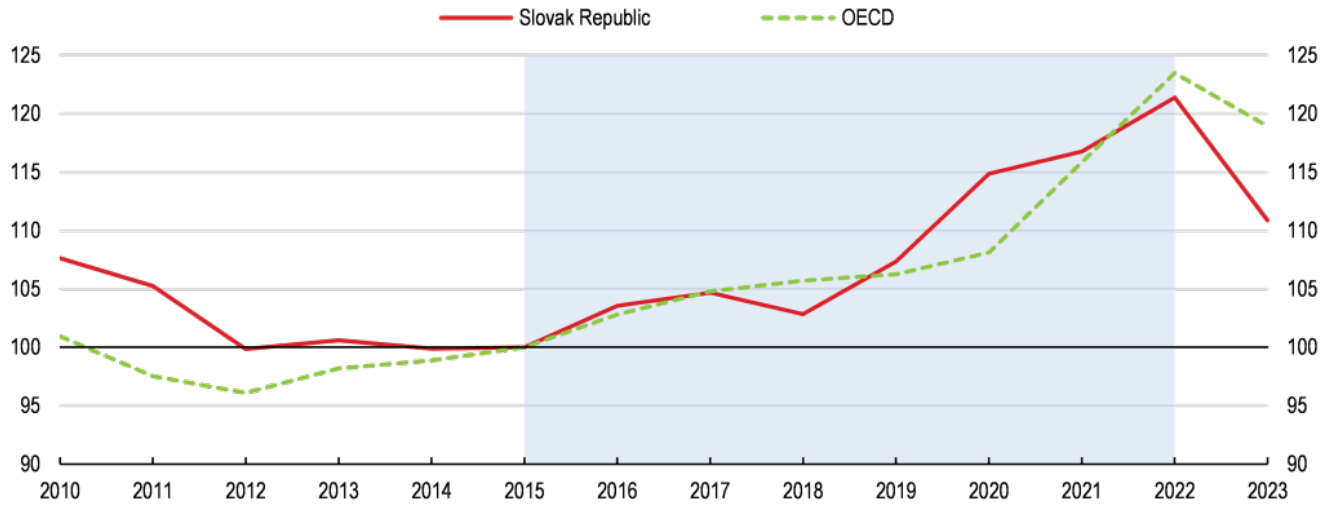


By Federica De Pace

As in many OECD countries, housing affordability deteriorated in Slovakia before the energy crisis. Between 2015 and 2022, house prices rose at a much faster pace than households' income (Figure 1). Since 2022, the cost-of-living crisis has been squeezing real incomes, dampening housing demand and resulting in declining house prices. However, with interest rates and mortgage costs surging, housing affordability remains a challenge today. Moreover, Slovak households have been particularly exposed to the surge in energy prices, as nearly 10% of their budget accounts for electricity and gas expenditures – the highest share among OECD countries. The poor thermal performance of the housing stock, mostly comprising buildings that were constructed during the communist era, contributes to explaining such high costs for electricity and heat. Last, many low-income households, especially in the Roma community, live in low-quality and overcrowded housing, and homelessness has reached an alarming dimension over the past years.

Figure 1. House prices have increased faster than incomes until 2022

Price to income ratio, index 2015 = 100



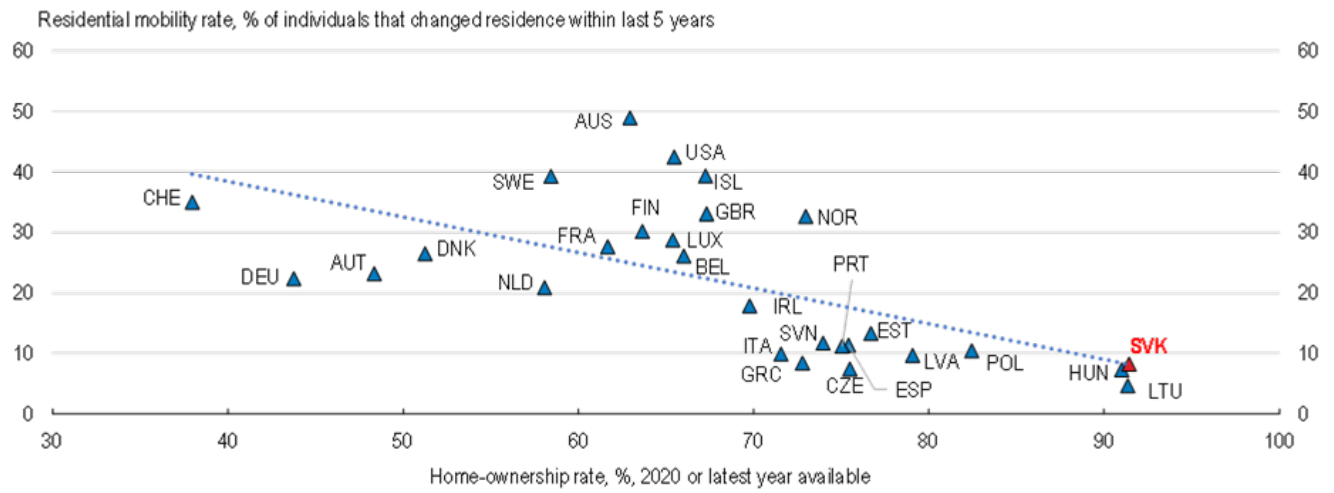
Source: OECD Analytical House Prices database.

To address these housing market challenges, Slovakia needs to find ways to boost efficiency, promote affordability and inclusiveness, and accelerate environmental sustainability of housing. To do so, the 2024 OECD Economic Survey of the Slovak Republic suggests reforms in five broad areas:

1.***Streamlining housing construction.*** Administrative inefficiencies in the building permits procedures contribute to slow the responsiveness of housing supply to demand pressures. The process for obtaining building permits is very slow: in 2019 it took on average 300 days versus 152 days in the average OECD country (World Bank, 2019). Expediting the adoption of digitalisation in building permits would accelerate procedures and enhance housing supply responsiveness, alleviating pressures on housing prices. Furthermore, land use policy is highly decentralised. 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 local level. Giving more responsibilities to higher levels of government in land use policy and construction-related activities would help to facilitate construction projects.

2. ***Expanding the private formal rental market.*** As a consequence of the privatisation of state-owned housing during the transition to a market economy in the early 1990s, most households own their home, and the formal private rental market is thin. Developing the private rental market can spur residential (Figure 2) and labour mobility. This can help to reduce skill shortages and improve matching between employers and employees, with positive effects on productivity. It requires *inter alia* striking a better balance between the interests of landlords and tenants, for example by making provisions for a rental contract that ensures enough flexibility and security for both parties.

Figure 2. 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

3. ***Reforming housing taxation***. Revenues from recurrent taxes on immovable property are low in international comparison. A comprehensive reform package shifting the burden from labour to property taxation has the potential to reduce distortions to economic growth. Moreover, basing property taxes on regularly updated property values would help stabilise fluctuations in housing prices and improve equity. Gradually

phasing-in the taxes and introducing tax deferrals, for example by paying the tax only when a house is sold or bequeathed, can increase acceptance and protect vulnerable homeowners.

4. ***Increasing housing inclusiveness.*** Many low-income households live in poor housing conditions and are overburdened by housing costs. These issues are particularly pronounced among the Roma, where the overcrowding rate reaches 80% and almost a third of the community lives in dwellings without access to tap water (European Agency for Fundamental Rights, 2022). Accelerating the formalisation of property rights in Roma settlements would help to provide access to basic infrastructure, such as tap water and sanitary facilities, improving life conditions and promoting social integration. Higher investment in social housing, especially in areas connected to job centres and transports, and expanding targeted housing allowances would help to raise affordability and reduce social exclusion.

5. ***Strengthening incentives to accelerate housing renovation.*** Higher carbon prices in the building sector, as planned at the European level from 2027, would provide strong incentives for renovating housing and shifting to lower-emission heating systems. In addition, implementing stricter regulation, including by extending coverage of high-quality energy performance certificates and relaxing voting rules for renovation works in multi-apartment buildings, together with targeted financial assistance to low-income households living in the most energy inefficient dwellings would help to further incentivise housing renovations, reduce energy poverty and advance environmental objectives.

Reference

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Strengthening economic resilience in Switzerland through trade

Category: Switzerland,Uncategorized
written by oecdecoscope | March 18, 2024



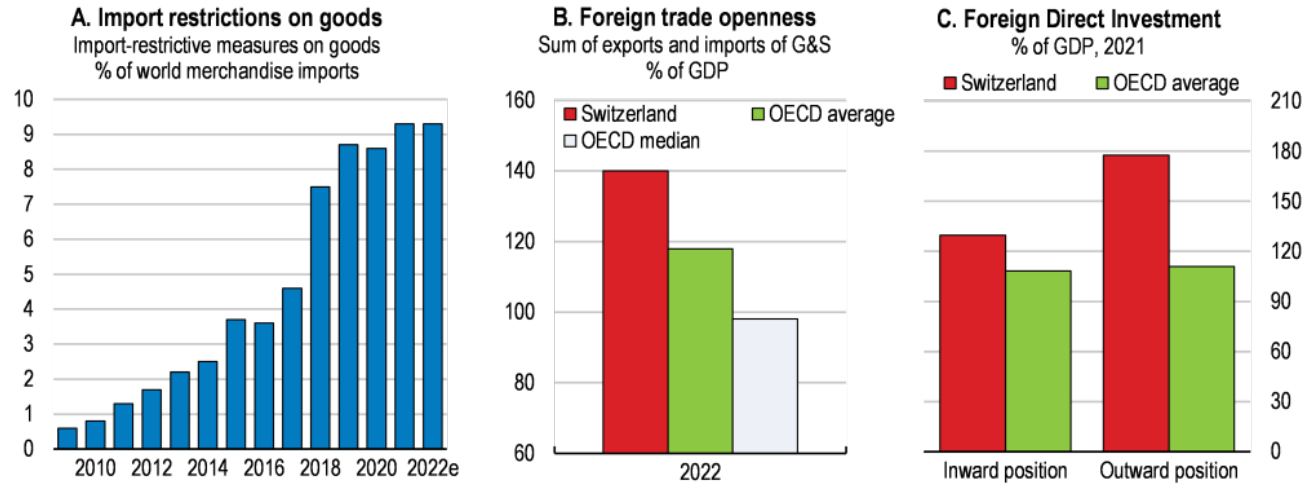
By Erik Frohm

The COVID-19 pandemic and escalating conflicts, such as Russia's war of aggression against Ukraine, have sent shockwaves through energy markets and global value chains. This has reinforced the imperative to foster economic resilience in many countries, while raising calls for self-reliance, more active industrial policies to benefit domestic industries and trade restrictions (Figure 1).

For Switzerland, a country deeply embedded in global markets, navigating these challenges is vital. Central to Switzerland's success has been its steadfast commitment to openness, enabling the flow of goods and services, capital, people and ideas. Although trade may act as a conduit for adverse shocks, less integration into the global economy would not make Switzerland more resilient, as highlighted in the ***2024 Economic Survey***. Instead, stable and predictable trade and investment regimes reduce uncertainty and lower trade costs. This empowers companies to diversify and fortify their supply

chains cost-effectively, as open trade makes markets "thicker", by expanding the number of possible suppliers and buyers.

Figure 1. Global trade restrictions pose challenges for Switzerland's open economy

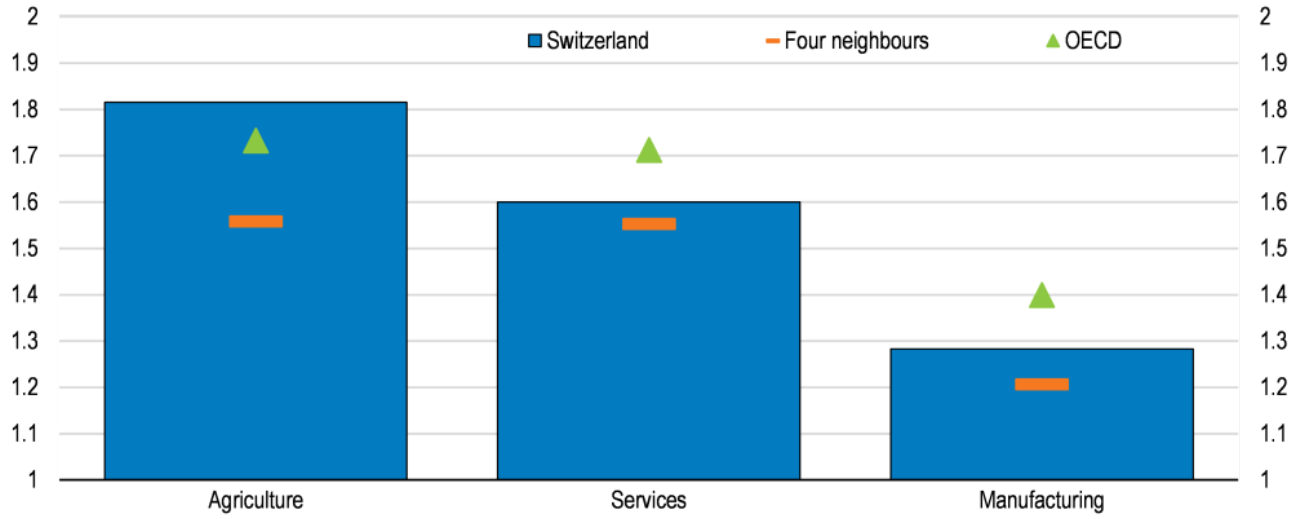


Notes: For panel A, the chart denotes the global cumulative trade coverage of restrictions on goods estimated by the WTO Secretariat, based on information available in the TMDB on import measures recorded since 2009 and considered to have a trade-restrictive effect. The estimates include import measures for which HS (Harmonised Commodity Description and Coding System) codes were available. The figures do not include trade remedy measures.
Source: WTO November 2022 Report; Economic Outlook database; OECD International Direct Investment Statistics database.

According to the WTO's Trade Cost Database, effective trade costs, representing all factors constraining international trade versus domestic activity, are lower in Switzerland than the OECD average in manufacturing and services, yet higher than in the four neighbouring countries (Austria, Germany, France and Italy), see Figure 2. Trade costs can be lowered in many ways. Tariff cuts, deeper or new free trade agreements (FTAs), improved at-the-border regulations and procedures, as well as investments in digital infrastructure all help. In this regard, Switzerland unilaterally abolished tariffs on

industrial goods from January 2024. Similarly, the signing of an FTA with India in March 2024 together with the EFTA member states (Iceland, Lichtenstein and Norway) represents an important milestone. Yet barriers to trade remain high in agriculture and the services sector. Less direct support and more import competition would raise agriculture productivity and lower prices. Minimising barriers to services trade will increase the gains from digital transformation and boost competitiveness.

Figure 2. There is scope to reduce effective trade costs, in particular in services and agriculture



Notes: The effective trade costs are estimates of the costs involved with international trade relative to domestic activity. The figure shows trade cost estimates from the WTO, averaged across ISIC Rev. 4 sub-sectors in 2018. The trade costs are expressed as ad-valorem equivalents, in logarithms. Four neighbours refer to Austria, Germany, France and Italy. OECD is a simple average of OECD countries.
Source: WTO.

Most of Swiss exports and imports flow within FTAs. The usage rate is 73% for imports, which is higher than for the EU average yet lower than best performing countries. There are several reasons why companies may choose not to use the FTAs, depending on the products they trade and their preferential

rules of origin. Complying with the rules may be difficult due to complex information requirements or involve large administrative costs. Reducing the administrative burden and providing centrallised, clearly structured and understandable information could increase the use of FTAs.

With the EU standing as Switzerland’s largest trading partner, the bilateral relationship is of paramount importance. The current partnership is governed by roughly 120 separate treaties, but faces uncertainties as efforts to reach a comprehensive “framework agreement” stalled since 2021. The Federal Council’s adoption of a new negotiating mandate with the EU in March 2024 is a welcome step, and opens the door to continued deep economic integration. An erosion of the Switzerland-EU partnership would raise uncertainty, be harmful for Switzerland’s external trade and competitiveness and undermine its economic resilience.

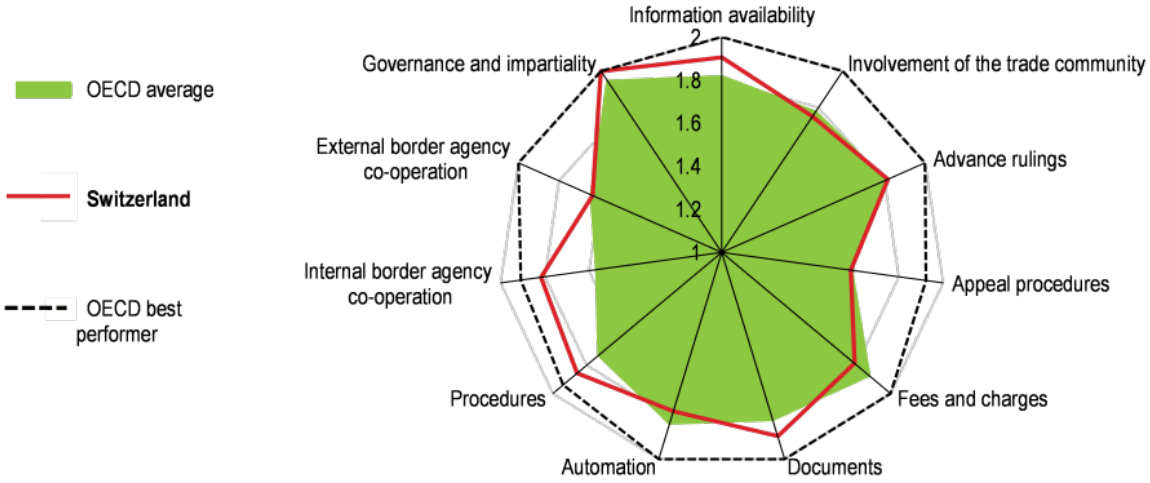
Addressing behind- and at-the-border regulations, as well as enhancing digital connectivity, are crucial steps to facilitating trade and limiting bottlenecks. While Switzerland outperforms the OECD average in several aspects of trade facilitation, there is further room for improvement, particularly in areas such as fees and charges, process automation, and external border agency cooperation (see Figure 3). Streamlining information availability and pre-arrival processing procedures for imports can significantly reduce the time and cost burden for businesses, particularly SMEs looking to expand internationally and diversify their supply chains.

As Switzerland charts its course through a changing global economic landscape, maintaining openness in trade and reducing regulatory burdens will be key to strengthening economic resilience. This approach can allow companies to improve the resilience of their supply chains, without unduly increased state influence or costly public support.

Figure 3. Improving trade facilitation measures would help

reduce bottlenecks

OECD Trade Facilitation Indicators, from 0 to 2 (best performance), 2022



Source: OECD (2022), Trade Facilitation Indicators.

Employment dynamics across firms during COVID-19: The role of job retention schemes

Category: COVID-19,Uncategorized
written by oecdecoscope | March 18, 2024



By Sara Calligaris, Gabriele Ciminelli, Hélia Costa, Chiara Criscuolo, Lilas Demmou, Isabelle Desnoyers-James, Guido Franco and Rudy Verlhac[1]

Three years after the outbreak of the COVID-19 pandemic, the implications of the massive fall in economic activity and of the associated widespread government support to businesses are still not fully understood. Yet, they are key to inform policy design and action going forward, in particular with respect to their potential consequences for aggregate productivity via labour reallocation.

Against this backdrop, a recent paper (Calligaris et al., 2023) investigates employment dynamics across firms along the intensive and extensive margins during the COVID-19 pandemic, the extent to which these adjustments were productivity enhancing, and the role of job retention schemes (JRS) in shaping these patterns. The paper relies on a combination of novel and unique data. First, in collaboration with 12 participating countries, it collects high-frequency (monthly) harmonised micro-aggregated statistics, computed using administrative data on employment and wages from electronic payroll records, linked to monthly information on policy support during COVID-19. Second, it builds a new cross-country and high-frequency de-jure indicator of JRS allowing researchers to benchmark their generosity across countries and over time.

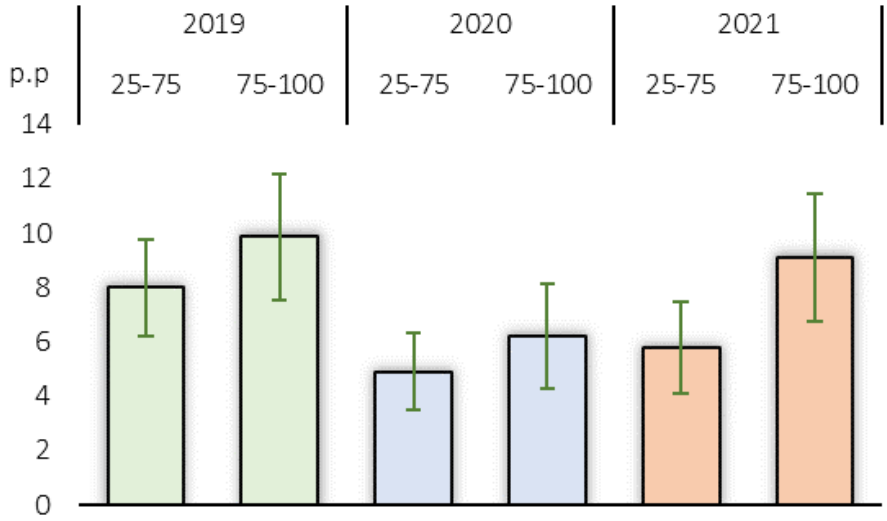
Employment adjustments and reallocation in COVID-19 times

The analysis shows that, since the onset of the COVID-19 crisis, employment adjusted through different margins. In 2020, employment adjusted mainly along the intensive margin, with a decline in employment growth of surviving firms relative to 2019, while – at the extensive margin – survival rates remained on average stable. In 2021, employment growth of surviving firms picked up, while average survival rates started to decline. These aggregate results mask high cross-country and cross-sector heterogeneity, with increases (decreases) in job destruction (creation) rates significantly higher in low-telework sectors.

These adjustments in employment dynamics also entail a reallocation of resources across firms within sectors, which is a relevant factor affecting aggregate productivity growth. Relative to 2019, the productivity enhancing nature of labour reallocation was weaker in 2020 and 2021. Indeed, while on the extensive margin high productivity firms still showed significantly higher survival rates compared to their lower productivity competitors, the contribution of the intensive margin weakened, with employment growth of surviving firms remaining only marginally related to productivity.

Figure 1. Labour reallocation remained productivity-enhancing, though to a lower extent

Difference in total employment growth relative to the bottom quartile of the productivity distribution.



Note: The figure presents differential employment growth rate for mid (25-75) and high productivity firms (75-100) relative to the baseline group of low productivity ones (0-25) in 2019, 2020, and 2021. The estimates come from regressing employment growth (between January of each year and January of the year after) on a dummy for each productivity quantile along with country-sector fixed effects and weighting the regression by sectoral employment shares. The columns represent estimated coefficients and the green bars 95% confidence intervals.
Source: Calligaris et al. (2023).

The role of job retention schemes

Job retention schemes have been the most widespread policy instrument to support workers and firms across OECD countries. The data show that the uptake of JRS by firms in the sample varies markedly across countries, sectors and over time. At its peak, around 80% (60%) of firms received support in New Zealand (Australia), and more than 20% of firms were supported in European countries such as Denmark, Latvia and the Slovak Republic. Uptake has been by far the highest in the "Accommodation and food service activities" sector and at the time the COVID-19 pandemic hit the hardest. It was gradually reduced and the eligibility requirements to access the schemes were tightened when countries lifted mobility restrictions. There was also heterogeneity in the allocation of support across firms within sectors: In all countries, JRS support was not disproportionately directed towards unproductive companies (Figure 2.A), as uptake was relatively higher for firms in the middle quartiles and in the top quartile of the productivity or size distribution.

The analysis investigates the role of JRS using: i) firm-level information on uptake to contrast employment growth and survival rates across firms at a detailed level, as well as ii) local projections estimations exploiting ex ante differences in the generosity of support design through a novel de-jure JRS indicator to further ease endogeneity concerns. The two approaches provide complementary insights, showing that JRS contributed to mitigating the negative consequences of the crisis on employment and business survival. Specifically, following a tightening in the intensity of the pandemic, employment growth was on average lower and firm exit higher in the absence of JRS, relative to when generous JRS were in place (Figure 2.B). Furthermore, the analysis shows that when no JRS were in place, employment for mid and high productivity firms decreased significantly more than when more generous JRS was in place, while no significant

difference was found for the least productive firms.

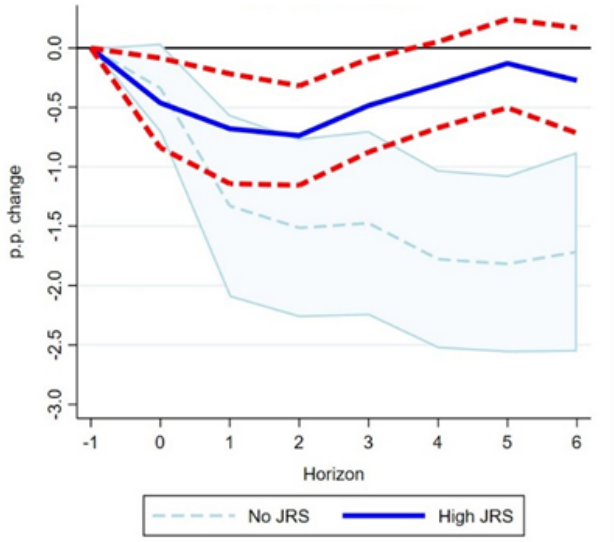
Taken together, these results suggest that government policies were effective in mitigating the effects of the crisis and did not appear to distort the creative destruction process and productivity enhancing nature of reallocation.

Figure 2. JRS mitigated the consequences of the crisis, without distorting the reallocation process

Panel A: Differential JRS uptake by productivity quantile with respect to the lowest productivity quantile (by date, across countries and sectors)



Panel B: Effect of a tightening in the containment stringency index on employment growth



Note: Panel A plots the coefficient and related 95% confidence intervals of a regression of JRS uptake on the productivity quantiles categorical variable, on a cross-country sample evaluated repeatedly at different points in time, controlling for country by industry fixed effects. Each sector is weighted according to its average size in terms of employment over the year. Panel B. The lines represent the effect on employment growth of a change in the containment stringency index between 0 and 6 months after the change, if the JRS indicator in the month before the change in severity was equal to 0 (No JRS, light blue dotted line) or to the 75th percentile (High JRS, blue filled line). The red dotted lines and the thick light blue lines represent the 90% confidence interval around the

estimates.

References

Calligaris, S., G. Ciminelli, H. Costa, C. Criscuolo, L. Demmou, I. Desnoyers-James, G. Franco, R. Verlhac, (2023), "Employment dynamics across firms during COVID-19: The role of job retention schemes", *OECD Economics Department Working PaperNo 1788*, https://doi.org/10.1787/33388537-en.

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[1] The analysis is the result of a collaboration project between two OECD Departments, namely the Economics Department and the Directorate for Science, Technology and Innovation. It would not have been possible without the valuable contribution of national experts from the Central Bank, the Ministry of Economy and/or Finance, Revenues and Customs, or National Statistical Office of the countries participating to the project –namely, Australia, Belgium, Canada, Costa Rica, Denmark, Italy, Latvia, Netherlands, New Zealand, Norway, Slovak Republic and United Kingdom.

Strengthening the recovery and accelerating the green transition in Hungary

Category: Green growth,Hungary,Uncategorized
written by oecdecoscope | March 18, 2024



By Pierre-Alain Pionnier and Donal Smith

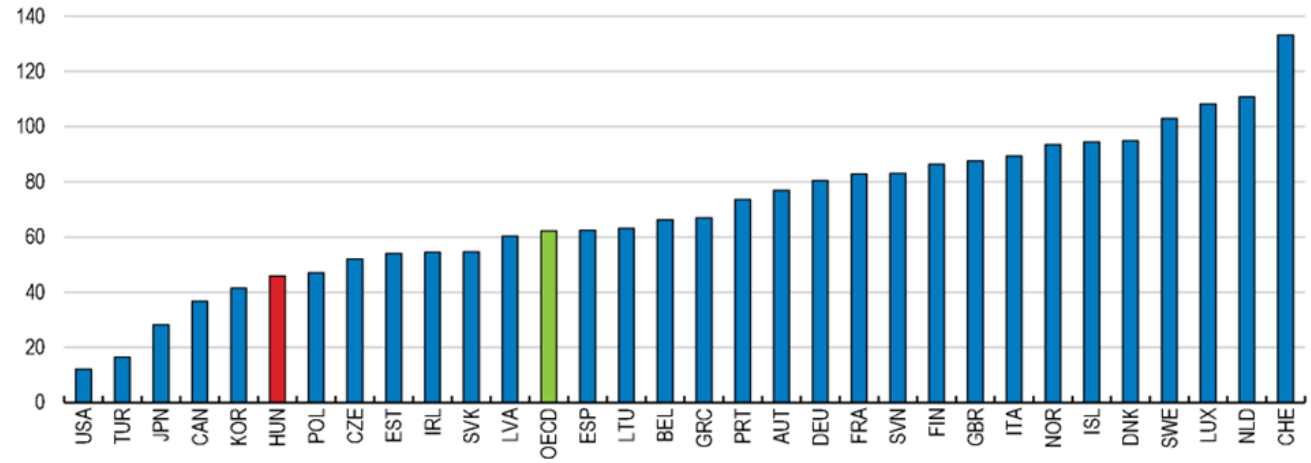
After a strong demand-based recovery from the economic fallout of the COVID-19 pandemic, Hungary's economy contracted in 2023 while inflation climbed higher than elsewhere in the European Union, at some point surpassing 25%. The good news is that growth has restarted in mid-2023 and inflation is receding. At the same time, both fiscal and monetary policies will need to work hand-in-hand to fight remaining inflationary pressures and recreate fiscal space for future spending needs, as highlighted by the recently published OECD Economic Survey of Hungary (OECD, 2024).

One of the big challenges of the next decades will be to move towards a greener and more sustainable economy. Hungary has made progress in this direction, but this progress needs to accelerate. For a large part, emission reductions achieved so far have been related to the changing industry structures as the economy transitioned to a market economy in the early 1990s. Regulations and standards are currently the main tools used to support the green transition, but they will likely be insufficient to reach the 2030 and 2050 emission targets. Price signals are key for an efficient decarbonisation. The European Union's Emission Trading Scheme is the main price-based measure to curb emissions in Hungary, but it only covers a third of emissions. As a result, average carbon prices are low in international comparison, exacerbated by energy subsidies on fossil fuels (Figure 1).

Figure 1. Carbon prices are low

Net effective carbon rates, all sectors, EUR per tonne of CO_2,

2021

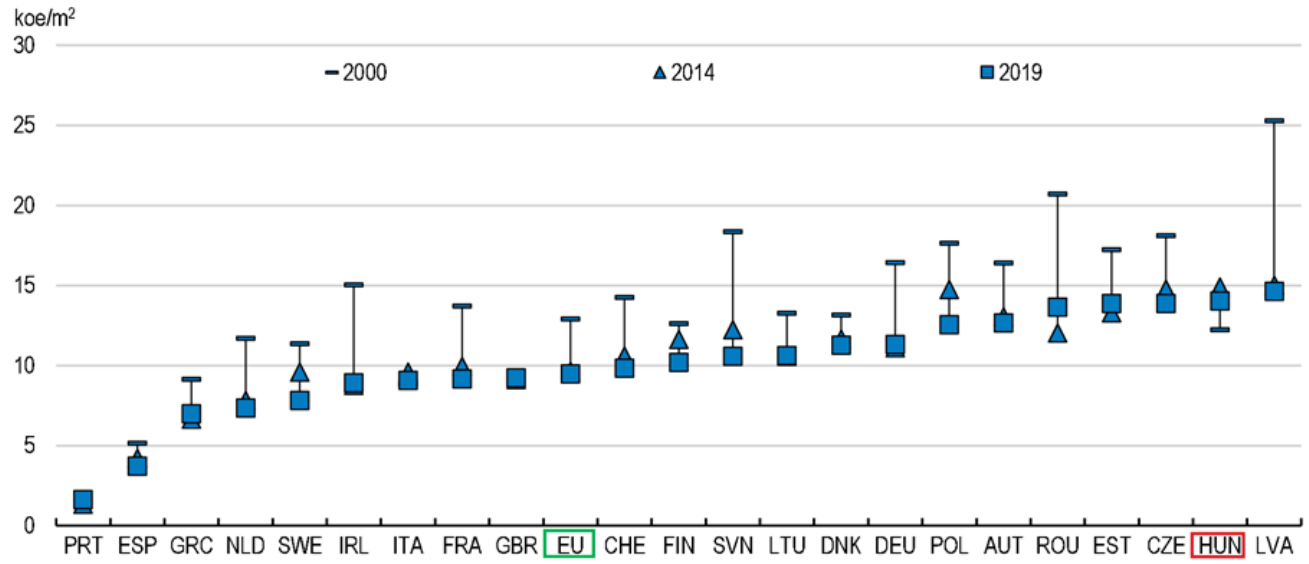


Note: Net effective carbon rates consist of emission trading prices, carbon taxes, and fuel excise taxes, minus fossil fuel subsidies. The OECD average is an unweighted average of net effective carbon rates across OECD countries.
Source: (OECD, 2022)

In the residential sector, price caps keep retail electricity and gas prices low for many households. Along with poor dwelling insulation, this may explain why household energy consumption is among the highest in Europe (Figure 2). If energy support to households were restructured and price caps replaced with targeted cash transfers, this would not only protect vulnerable households, but it would also improve energy efficiency incentives and cost less, as energy subsidies reached 2.5% of GDP in 2023. Part of the fiscal savings could be allocated to upgrade the housing stock of financially constrained households.

Figure 2. Households' energy consumption is high

Energy consumption of households for heating, in kilograms of oil equivalent (koe) per m^2



Note: For each country, energy consumption is corrected for changes in meteorological conditions across years.
Source: Odysee-Mure, https://www.odyssee-mure.eu/

Emissions from the transport sector have increased since 1990 and now represent 20% of overall greenhouse gas emissions. Car ownership has expanded along with rising income levels, but Hungarians drive one of the oldest car fleets in Europe, and over longer distances than elsewhere in Europe. Transport emissions could be limited through better incentives to replace high-polluting cars and choose public transportation where available, but also by improving the quality of public transportation and limiting urban sprawl, especially around Budapest.

On the supply side, meeting emission targets will require a significant increase in electricity production from low-carbon sources. Current plans are mostly focused on solar energy and biomass, particularly wood. While burning wood is a low-emission energy source seen over the long run, when accounting for the replanting of trees, in the short run it would increase emissions and reinforce an already acute air pollution problem. Hungary could make better use of its potential for wind and geothermal energy, but that will require removing restrictive rules on windmill installation and easing licensing procedures for geothermal energy

projects. Moreover, the development of intermittent energy sources like solar and wind energy will require massive investments in the electricity grid.

Ensuring a sufficient low-carbon electricity supply will be a challenge. Hungary currently imports 40% of its electricity from neighbouring countries, which are engaged in a similar decarbonisation process. Eventually, Hungary will also have to replace an ageing nuclear plant, and large projects like this can be subject to financial, technical, and even geopolitical risks.

All of these considerations will make it even more important to speed up progress on rolling out low-carbon renewable energy sources. Only this can make Hungary’s progress towards living standards more sustainable and leave a brighter future for the next generation.

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