

The Effects of Rent Liberalization on the Poverty in the Czech Republic

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Rent control has a long tradition in the Czech Republic (more than ninety years). This kind of protection of tenants from extreme increases of rents is valid for most of tenant dwellings in the Czech Republic. Rent control used to be well founded during the transformation period in the early 90's, but it has grown into one of the most rigid measures of the Czech housing policy. Only 20 % of tenants have to pay "market" price in the Czech Republic, the rest (80 %) could be considered as "protected tenants" according to EU-SILC data. It is highly possible that the latter group comprises not only of persons in need, but also rather the middle class people.

All attempts to abolish the rent control were unsuccessful until 2007 when a special act on rent control liberalization came into existence. It presumes that the process of deregulation should be finished until 2012. As a result, mainly in the bigger cities we can expect large increase of the former regulated rents. Therefore it is natural to ask what effects bring rent deregulation to a particular household. Can "protected" households afford increased rent prices?

The aim of the paper is to show what the change of the poverty in the Czech Republic will be when the process of rent deregulation is finished. In the first part of the article we employ contemporary applied poverty measures and characterize poverty in the Czech Republic, primarily concentrating on household with regulated rents (before deregulation). In the second part of the article we show the development in the poverty between 2006 and 2007 (the first year of the rent deregulation process). Finally, in the third part of the article we use a micro-simulation model as a tool for discovering potential development of the poverty among affected households as a result of finished process of rent deregulation. The analysis is based on EU-SILC micro data for the Czech Republic.

Keywords: poverty, poverty measurement, rent deregulation