

# Hungary

By Gyula Nagy, Takarékszövetkezet Bank Plc

## IN A NUTSHELL

- Double digit growth in mortgage lending volumes and in the house prices.
- Green Covered Bonds were first issued in 2021, supported by the Green Covered Bond purchase program of the National Bank of Hungary.
- Green Home Program launched in October (preferential funding for the newly built energy efficient dwellings).
- Mortgage moratoria ended in October 2021.

## MACROECONOMIC OVERVIEW

GDP increased by 7.1 %, an increase of 2.1% compared to 2019. On the production approach, industry increased by 2.1%, value added in construction by 21.4%, and agriculture decreased by 6.1%. Within services, the highest increase occurred in accommodation and food service activities (68.8%), transportation and storage (20.5%) and information and communication (14.1%).

Based on expenditure, consumption by households rose 7.1%, while the by the government rose by 5.8%.

Gross fixed capital formation was up by 5.4% compared to the previous year.

In terms of trade, goods exports increased by 1.5%, while imports were 0.4% lower. Services exports increased by 28.3%, while imports increased by 19.1%.

Average gross earning for employees was HUF 438,800 represented a 8.7% increase.

The unemployment rate was, on average for the year, 4.1%. By year end, as per December 2021 data, unemployment rate fell to 3.7%.

Consumer prices for the whole year were 5.2% higher than in the previous year. Inflation started to accelerate toward the end of the year, consumer prices in December were already 7.4 % higher than a year before. Food prices grew by 8%, motor fuel prices by 25.9%, household repair and maintenance goods by 15.1%.

Hungary posted a Budget deficit of 6.8% of the GDP in 2021. The public debt to GDP ratio was 76.8%.

## LOOKING AHEAD

Due to the geographical proximity to the conflict in Ukraine, the economic effects of the conflict are expected to be strong in the Central and Eastern European region. Inflation rose significantly in the first quarter of 2022 and further increases are expected in commodity and energy prices, which is aggravated by increasing disruptions to supply.

New housing subsidies, available from 2021, contributed significantly to the persistently high volume of housing loan disbursements. From October, the

Green Home Programme also supported housing loans for new dwellings, but the funds allocated to the programme ran out in the first quarter of 2022.

Although inflation effects mortgage rates only with a delay, rising interest rates will adversely influence mortgage lending in 2022.

Due to the real economic risks on the horizon, the rise in household lending may slow to one digit growth. Furthermore, a slowdown of overall house price growth is also expected in 2022.

However, a further strong price growth is expected for new dwellings that comply with the “nearly zero energy emission” criteria, because for these dwellings it is expected that supply will not be able to satisfy growing demand.

## HOUSING MARKETS

Hungary had a population of 9.7 mn and a stock of 4.5 mn housing units at the end of 2021. Homeownership ratio with 91,3% in 2021, ranking among the highest in the EU.

The year started with a significant recovery for the housing market. Following the reopening of the economy, the labour market returned to “pre-covid levels”. In some sectors staffing shortages occurred (e.g. construction workers, tourist sector, etc.). Household real income also started to grow significantly from the second quarter.

New housing subsidies available from the beginning of the year also made a major contribution to housing demand. The number of building permits granted in 2021 was 29,941, up 33% compared to 2020 (22,556). The increase was a result of improving investment sentiment, and of the reinstatement of the preferential VAT (5% instead of 27%) for new residential projects started with a valid building permit until the end of 2022. The number of housing units completed in 2021 was 19,898, a 29% reduction compared to 2020, when a total of 28,158 dwellings were finished.

In Budapest, 5,491 new permits were issued versus 6,355 in 2020. The number of finished dwellings was 7,038 versus 6,341. Thus, while new permits decreased by 13.6% completions increased by 11% in the capital.

In the new housing segment, the subsidies available in 2021 stimulated the market, while the Green Home Programme of the National Bank encouraged developers to build environmentally sustainable new residential properties.

In contrast, demand and supply uncertainties in connection with the economic reopening led to sharp rises in construction material prices and shortages of materials across several jurisdictions, including Hungary.

Furthermore, a shortage of skilled manpower and construction material in the construction sector slowed housing completions in 2021, which helps explain apparently contradictory market movements (that is, high growth in permissions and contractions in the number of finished residential projects and housing completions).

With the pick-up of economic growth, double digit growth in mortgage lending and the subsidies available to first time buyers and families, house price growth accelerated.

According to the Takaréék House price Index, prices in 2021 were 12 % higher than in the previous year. The increase in Budapest was only 6%, below the country average, but in Szeged it was 16% and in Debrecen 19%, two large cities in which price growth exceeded the country average.

According to the figures in the House Market Report of the National Bank of Hungary the number of housing transactions was 168,000 during the year.

## MORTGAGE MARKETS

### MARKET DYNAMICS

Outstanding residential loans to households grew by 12%. Gross lending grew by 26%. Growth was especially strong from the second quarter following a contraction in the first quarter. Moreover, second quarter monthly disbursements reached historic heights. In some months the monthly disbursed new loans were only comparable to volumes seen before the GFC in 2008.

The increase was driven by the continued rise in house prices, the expansion in home purchase subsidies, demand brought forward as a result of the interest rate hike expectations and the Green Home Programme.

The Green Home Programme (designed for new built dwellings and houses) was launched in October, the ratio of loans taken out for the purchase and construction of new homes in Q4 of 2021 rose to 23% from 17.5% in Q4 of 2020.

The number of housing loan contracts continued to rise year-on-year, the average loan amount also increased due to the growing house prices by 10-11% in 2021 compared to the previous year .

In spite of the growth in housing loans , the mortgage debt to GDP ratio in Hungary is still among the lowest compared to other jurisdictions in the region. The mortgage debt/GDP ratio grew from 8.4% to approximately 8.9% in 2021. The typical LTV of a new mortgage is below 60%. About 36% of loans have an LTV lower than 50%, only 32% above 70%.

The payment moratoria introduced in March 2020 following the outbreak of COVID ended (with some exceptions) at the end of October 2021. Only a limited number of eligible debtors used the opportunity to stay in moratoria from November 2021 (approximately 5% of household debtor).

The NPL ratio of the residential mortgage stock grew from 2.4% in 2020 to 3.7% in 2021.

## MORTGAGE FUNDING

The largest portion of mortgage loans are deposit-funded, but covered bonds are also a commonly used source of funding. Act XXX. on Mortgage Banks and Mortgage Bonds, approved by the Hungarian Parliament in 1997, contributed significantly to the establishment of the covered bond market and provided support to establish a mortgage bond market.

In April 2017, as a result of a new regulation, the Mortgage Funding Adequacy Ratio (MFAR) was introduced by the National Bank of Hungary. According to the regulation, the commercial banks were obliged to refinance at first 15% of their outstanding long-term mortgage loan portfolio with long term securities. The ratio was then increased to 20% in October 2018 and later changed to 25% as of 1<sup>st</sup> October 2019. A further increase of the ratio was planned for 2022 , but the increase to 30% will enter into force only from October 2023.

In light of the pandemic, the Central Bank announced a covered bond purchase program in 2020. This programme started in May in 2020 with the aim of stimulating the frozen capital markets. By means of this programme the NBH bought mortgage bonds on the primary and secondary markets at preferential rates. In November 2020 the NBH announced the end of the bond purchase program but at the same time announced the start of a new green mortgage bond programme in 2021.

## GREEN FUNDING

The Green Mortgage Bond Purchase Programme of the NBH started in 2021. Within its framework, the NBH undertook the purchase of 40% of the issued Green Covered Bonds on the auctions at preferential rates and also to buy smaller volumes on the secondary market. As a result of this programme, 4 mortgage banks out of the 5 operating in Hungary launched green covered bonds in 2021.

The National Bank of Hungary's Green Home Programme (GHP), mentioned above, targeted households and individuals buying or building new energy-efficient homes. The programme was originally launched in October 2021 and homes subjected to it have to have an energy efficiency rating of at least BB and a maximum primary energy consumption of 90 kWh/m<sup>2</sup> /year. In 2022, the energy consumption threshold of dwellings eligible for the programme was restricted to 80 kWh/m<sup>2</sup>/year). In light of the rapidly growing interest rates , the central bank's funding for financial institutions at 0% interest, combined with a maximum 2.5% interest toward the debtors, proved to be a great motivating factor for the buyers to apply for this loan facility. The program has proven to be a great success , but the allocated funds ran out at the end of Q1 2022.

	HUNGARY 2020	HUNGARY 2021	EU 27 2021
<b>MACROECONOMIC VARIABLES</b>			
Real GDP growth (%) (1)	-4.5	7.1	5.4
Unemployment Rate (LSF), annual average (%) (1)	4.3	4.1	7.0
HICP inflation (%) (1)	3.4	5.2	3.0
<b>HOUSING MARKET</b>			
Owner occupation rate (%) (1)	91.3	91.3	70.0
Gross Fixed Investment in Housing (annual change)(1)	21.5	-10.4	6.6
Building Permits (2015=100) (2)	180.2	239.2	134.0
House Price Index – country (2015=100) (2)	203.6	227.8	145.2*
House Price Index – capital (2015=100) (2)	220.3	233.8	146.1*
Nominal house price growth (%) (2)	9.1	11.9	10.3*
<b>MORTGAGE MARKET</b>			
Outstanding Residential Loans (mn EUR) (2)	13,321	14,660	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	1,653	1,827	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	16.6	16.3	62.8*
Gross residential lending, annual growth (%) (2)	-5.6	23.9	12.2
Typical mortgage rate, annual average (%) (2)	4.6	4.4	2.0

\* Please note that this value is the simple average of the available values in 2021.

**Sources:**

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

## HUNGARY FACT TABLE

**Which entities can issue mortgage loans in your country?**

Banks, specialised mortgage banks, savings cooperatives, home savings banks, financial companies (mortgage houses) can issue mortgage loans in Hungary.

**What is the market share of new mortgage issuances between these entities?**

In proportion to the total volume commercial banks issued 60.5%, mortgage banks 30.5%, home savings cooperatives 9.1% of the new mortgage issuances.

**Which entities hold what proportion of outstanding mortgage loans in your country?**

Commercial banks hold 59%, mortgage banks 30%, home saving cooperatives 11% of the total outstanding mortgage loan portfolio.

**What is the typical LTV ratio on residential mortgage loans in your country?**

The typical LTV ratio of the newly disbursed residential mortgage loans is around 60%.

**How is the distinction made between loans for residential and non-residential purposes in your country?**

In the residential loan portfolio, by "housing loans" it is understood that the purpose of said loan is to finance the acquisition or purchase of a house or flat. On the other hand, in the residential mortgage loan portfolio, the so called "home equity loans" are also included, when the purpose is to get a loan with a mortgage on the already existing home property. "BTL mortgages" at present are included also in the residential loan portfolio, and statistically are not registered separately.

**What is/are the most common mortgage product(s) in your country?**

The most typical mortgage product is the housing loan granted by commercial banks and mortgage banks (when the purpose is the purchase of a flat or house).

**What is the typical/average maturity for a mortgage in your country?**

Average maturity for a mortgage loan was 16.2 years in 2021.

**What is/are the most common ways to fund mortgage lending in your country?**

The most common way to fund mortgage lending is funding from deposits, but since April 2017, commercial banks must adhere to a new regulation introduced by the National Bank of Hungary. The regulation prescribed, that certain proportion of all outstanding residential mortgage loans must be funded or refinanced by mortgage bonds. The ratio is called Mortgage Funding Adequacy Ratio (MFAR) and it was initially set at 15%.

From October 2019 the ratio increased to 25% and remained at this level in 2020 and 2021.

**What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?**

A transfer (stamp duty) tax of 2-4% is to be paid by the buyer to the National Tax and Customs Administration. (The rate of duty is 2% until 4 Mio HUF than 4% up to HUF 1 bn (EUR 2.5 mn) per property. Buyers may be entitled to certain reliefs.

Legal fees may range from 0.5–1% of the property price, usually paid by the buyer.

When the property is sold through a real estate agency, a further 3-5% is generally paid by the seller.

Buying a newly built flat is subject to a preferential VAT payment of 5% (instead of the 27% VAT applied on most consumer prices and services). The easing of the preferential VAT payment was extended until end 2022.

A new Green Home Programme (GHP) was launched in October 2021 by the National Bank of Hungary (NBH) with the purpose of supporting the construction of energy-efficient new homes (energy-efficiency rating of at least BB and a maximum primary energy consumption of 90 kWh/m<sup>2</sup>/year). The central bank provided refinancing funds to credit institutions at 0% interest, which they could lend on to retail customers at a maximum interest rate of 2.5% fixed for a max maturity period of 25 years. The programme was a great success and the allocated funds were running out at the end of Q1 2022. The program was extended with more strict conditions in 2022 (max energy consumption of 80 KWH/m<sup>2</sup>/year).

New housing subsidies generated a record high volume of lending for housing purposes in 2021.

**What is the level (if any) of government subsidies for house purchases in your country?**

A significant part of the new housing subsidies effective from January 2021 are connected to the Home Purchase Subsidy (HPS) for Families, the Rural HPS remaining the housing subsidy with the highest disbursement. The affordability of house purchase on credit is significantly improved by the programmes aimed at first-time homebuyers, primarily for families with children purchasing a new home.

Apart from the HPS programs the "Prenatal Baby Support" program (unsecured interest free loan facility up to HUF 10 Mio) also helped to stimulate the house purchase possibilities for families and first time buyers.

For families with three or more children, a lump sum subsidy of HUF 10 mn and a further HUF 10 mn subsidised loan with a max 3% interest rate is available, when they purchase a new home. The purchase of used homes in certain small settlements (about 2,500 countrywide) can also be a subject of this subsidy, up to 50% of the purchase price.

The Home Purchase Subsidy quickly became popular and it has had positive impact on the home purchase activity among First Home Buyers (mainly young couples).