

# Hungary

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## IN A NUTSHELL

- The economy shrank by 0.9% versus 4.6% growth in the previous year.
- Inflation was 17.6% compared to 14.5% in 2022.
- Gross residential mortgage lending dropped 47% compared to the previous year.
- The number of transactions (123 td) was the lowest for 10 years.
- Typical long term mortgage interest rates at year end were in the range of 7.3 - 8%.

## MACROECONOMIC OVERVIEW

The economy entered a recession with GDP 0.9% lower according to raw data and 0.7% lower according to seasonally and calendar-adjusted data. For the agriculture sector, value added grew by 68.5%, increasing the GDP volume by 2.2%. However, value added was 5.2% lower in industry (reducing GDP by 1%), 5.6% lower in construction (reducing GDP by 0.3%), and 1.6% lower in services (0.9%).

Exports decreased by 0.1% and imports by 5.1%.

Unemployment at year end was 4.1% (203 td). Year on year inflation grew from 14.5% in 2022 to 17.6% for the full year. Calculated on monthly basis, inflation decreased during the year, from 25.7% in January to 5.5% in December 2023. Food and energy prices contributed most to inflation, with food prices growing by 25.9% (contributing 7.5% to overall inflation). Household energy prices grew by 22.1%.

The deficit of the general government sector in Hungary in 2023 was HUF 5,018 bn, 6.7% of GDP based on preliminary data of national accounts. The debt of the general government sector at the end of 2023 was HUF 55,134 bn, 73.5% of GDP.

The amount of mortgage loans granted started to rise in the 4<sup>th</sup> quarter, by 12.4% y-o-y.

The voluntary interest rate cap for new mortgage loans introduced in October and falling inflation toward year-end helped mortgage market sentiment. According to the Lending Survey made in Q4 by the National Bank of Hungary, respondent financial institutions expect further strengthening of mortgage lending in H1 2024. After Government recommendation to stimulate the mortgage market, commercial banks implemented a so-called "voluntary interest rate ceiling" for mortgage loans toward the end of the year. As a result, banks lowered their mortgage rates. The recommendation in October was 8.5% APR as the ceiling, reduced to 7.3% from January 2024.

As the rapid rise in house prices in recent years has particularly hit first-time buyers, who are typically young, with small savings and low incomes, the National Bank of Hungary proposed lowering the down payment for first-time buyers to 10% from 2024.

## HOUSING MARKETS

Hungary had a population of 9,599 td and a stock of about presumably 4,600 td housing units at yearend. The homeownership ratio of 90.1% (Eurostat 2022) is among the highest in the EU. In 2023 the economy shrank by 0.9%. Inflation accelerated, disposable real income for households declined and mortgage rates also increased. This reduced housing demand and a negative turnaround occurred in 2023 on the Hungarian housing market. The number of building permits granted was 21,501, 38.6% lower than the 35,002 in 2022. Completions were 18,647, down 9.1% (20,540 units). Completions have been falling since 2020 when there were 28,208. In Budapest, the fall in permits was greater, from 13,399 to 7,956 and the number of completions from 6,610 to 5,891 (6,610 in 2022). According to the MBH House Price Index, house prices were 8% higher than in 2022. However, as inflation was 17.6% house prices decreased in real terms. House price growth was more moderate in Budapest at 4.8%, while in Debrecen and Szeged, it was above 9%, slightly above the country average. According to the figures in the House Market Report of the National Bank of Hungary, the number of housing transactions was 123,300, the lowest since 2013.

## MORTGAGE MARKETS

Mortgage loan disbursement peaked in Q2 2022, then dropped significantly until Q1 and Q2 of 2023. Average gross lending in 2023 was less than 50% of that in H1 2022. A slight recovery occurred toward the end of 2023 when the significant decrease in inflation and the gradual reduction in mortgage rates helped the market recover. The outstanding residential loan portfolio to households expanded only by 0.7%. Mortgage debt/GDP fell from 7.5% at end-2022 to 6.7% in 2023, this figure is among the lowest in the region. The NPL ratio from 3.2% at the end of 2022 to 2.5% by mid-2023 and then to 2.1% by year-end. The number of non-performing loans decreased from 21 td at the end of the previous year to 14 td. Despite the persistent rise in house prices in recent years, the median LTV ratio of newly disbursed mortgage loans has not increased. In the case of housing loans contracted in 2023, the median loan-to-value ratio was around 50%. Only about 22% of new mortgages were issued with an LTV above 70% in 2023.

To mitigate the effects of increasing rates, the government introduced "interest rate caps" on certain types of already existing mortgage contracts (variable and 1 to 5 years fixed rate mortgages), where the rates were frozen at their earlier rate. Despite decreasing inflation and the constant decrease of the Central Bank base rate, the end of these caps has not been, although it was only intended to be temporary in the high inflation period. Similarly to market-priced housing loans, housing subsidies and the related subsidized loans have also dropped. The termination of CSOK (Home Purchase Subsidy Scheme for Families or HPS) in cities and the restriction of eligibility conditions for the Prenatal Baby Support Loan will reduce housing loan demand from 2024 and brought forward some of these demands to 2023. At the same time, the termination of certain subsidies may be offset by the new HPS Plus program, announced in October 2023, which will allow couples committing to have children to access

preferential-rate loans from 2024 onwards. For the rest of 2023, eligible buyers may delay their purchases due to the introduction of HPS Plus in 2024 and the increase in rural HPS subsidy amounts next year. In Budapest, households with two children have seen improvements in their chances to buy a new home with a mortgage over the course of 2023, while in rural areas, although at a more favorable level, the ability to buy new homes with a loan has deteriorated. For households not committing to have children, the affordability of new homes has remained low in both Budapest and the countryside.

The main obstacle to the production of new dwellings in the domestic construction industry is the high price for new dwelling, especially in bigger cities. Labor and raw material shortages were less of a problem than in previous years. Market experts warned, however, that if skilled construction workers go abroad or switch careers due to low demand, it will be difficult to bring them back once the housing construction market picks up again.

## MORTGAGE FUNDING

Most mortgage funding is from deposits, but covered bonds are also commonly used. By year end more than 30% of residential loans were funded through covered bonds. Act XXX. on Mortgage Banks and Mortgage Bonds, approved by Parliament in 1997, contributed significantly to the establishment of the covered bond market. In April 2017, the Mortgage Funding Adequacy Ratio (MFAR) was introduced by the National Bank of Hungary requiring commercial banks to finance at first 15% of their mortgage loans with long-term securities. This was to 20% in October 2018 and 25% on October 1, 2019. A further increase to 30% was planned for 2022, but indefinitely delayed. The Hungarian covered bonds comply with the European Covered Bond and the European Covered Bond Premium criteria. The outstanding amount of covered bonds was HUF 2,029 bn at year-end, the equivalent of HUF 193 bn issued in EUR, the rest denominated in HUF.

## GREEN FUNDING

In July 2021, the preferential treatment of green funds in the MFAR (Mortgage Funding Adequacy Ratio) came into force, contributing to the issue of the first domestic green mortgage bonds. With the start of the MNB's Green Mortgage Bond Purchase Programme, green mortgage bond issuance started in the summer of 2021, and by June 2022, all five mortgage banks were already present in the market. At the end of 2023, the volume of green covered bonds currently outstanding was HUF 238 bn, representing 12% of all Hungarian covered bonds. In the future, as green loan portfolios build up, the share of green funds is expected to increase. Another program of the National Bank of Hungary, called the Green Home Programme (GHP), was targeted at households and individuals buying or building energy-efficient new homes. The program was launched in October 2021, and the homes subject to the program had to have an energy efficiency rating of at least BB and a maximum primary energy consumption of 90 kWh/m<sup>2</sup>/year. Later in 2022, the energy consumption of eligible dwellings was restricted to 80 kWh/m<sup>2</sup>/year. With interest rates rising rapidly, the central bank's funding for financing institutions at 0% interest proved to be a great motivating factor for buyers to apply for this loan facility. The program was a great success, but the allocated funds were running out in 2022. In 2021, to encourage green lending in Hungary, the National Bank of Hungary published the Green Preferential Capital Requirement Programme for

Housing (also available for Corporates and Municipalities). In the Programme, capital relief is available for mortgage loans and personal loans qualifying as energy-efficient, concluded by Hungarian credit institutions with consumers for the purpose of purchasing, building, or modernizing residential buildings.

	HUNGARY 2022	HUNGARY 2023	EU 27 2023
<b>MACROECONOMIC VARIABLES</b>			
Real GDP growth (%) (1)	4.6	-0.9	0.4
Unemployment Rate (LSF), annual average (%) (1)	3.6	4.1	6.1
HICP inflation (%) (1)	15.3	17.0	6.4
<b>HOUSING MARKET</b>			
Owner occupation rate (%) (1)	90.1	90.5	69.2
Gross Fixed Investment in Housing (annual change) (1)	14.6	-12.3	-3.1
Building Permits (2015=100) (2)	279.7	171.8	94.0
House Price Index - country (2015=100) (2)	292.9	316.3	170.2*
House Price Index - capital (2015=100) (2)	319.0	304.8	165.1*
Nominal house price growth (%) (2)	21.5	8.0	3*
<b>MORTGAGE MARKET</b>			
Outstanding Residential Loans (mn EUR) (2)	14,204	14,993	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	1,466	1,562	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	14.4	12.4	71.3
Gross residential lending, annual growth (%) (2)	-7.1	-45.1	-26.6
Typical mortgage rate, annual average (%) (2)	7.4	9.2	4.7

\* Please note that this value is a simple average of the available values in 2023.

Sources:

(1) Eurostat.

(2) European Mortgage Federation - Hypostat 2024, Statistical Tables.



## HUNGARY FACT TABLE

<b>Which entities can issue mortgage loans in your country?</b>	Banks, specialised mortgage banks, savings cooperatives, home savings banks, financial companies (mortgage houses) can issue mortgage loans in Hungary.
<b>What is the market share of new mortgage issuances between these entities?</b>	In proportion to the total volume issued in 2023 commercial banks issued 58.9%, mortgage banks 34.9%, home savings cooperatives, 6.1% of the new mortgage issuances.
<b>Which entities hold what proportion of outstanding mortgage loans in your country?</b>	Commercial banks hold 59%, mortgage banks 31% and housing saving banks hold the rest 10%.
<b>What is the typical LTV ratio on residential mortgage loans in your country?</b>	Between 50 to 60% is the typical LTV on new residential mortgages. Banks can grant mortgages generally up to max 80% LTV without additional collateral.
<b>How is the distinction made between loans for residential and non-residential purposes in your country?</b>	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.
<b>What is/are the most common mortgage product(s) in your country?</b>	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).
<b>What is the typical/average maturity for a mortgage in your country?</b>	Average maturity for a mortgage loan for new dwelling was 21 years, for used homes 19 in 2023.
<b>What is/are the most common ways to fund mortgage lending in your country?</b>	<p>The most common way to fund mortgage lending is funding from deposits, but covered bonds are also used for mortgage loan funding. 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%.</p> <p>From October 2019 the ratio increased to 25% and remained at this level also in 2023.</p>
<b>What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?</b>	<p>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 2.9 mn) per property. Buyers may be entitled to certain reliefs.</p> <p>Legal fees may range from 0.5-1% of the property price, usually paid by the buyer.</p> <p>When the property is sold through a real estate agency, a further 3-5% is generally paid by the seller.</p> <p>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 in 2024 until end 2028 provided that the Building Permit was granted until the end of 2024.</p>

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

In 2023 from the total outstanding mortgage portfolio 81% consisted of non-subsidized mortgage loans. Due to high interest rate environment the volume of subsidized loans has grown more dynamically in 2023 (7.1%) than the volume of market priced mortgages (0.3%).

In 2023-ban 71% of the government subsidies were used for purchasing used dwellings, 19% was used for building or buying new dwellings.

Similarly to the previous year a significant part of the new housing subsidies is connected to the Home Purchase Subsidy (CSOK in Hungarian) for Families. 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.

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 was available, when they purchased 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.

Apart from the CSOK 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.