

# Hungary

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## IN A NUTSHELL

- House price increase peaked in Q2.
- There was a record growth in mortgage lending volumes in H1, followed by a strong deceleration.
- Mortgage interest rates increased significantly toward the end of the year.
- The Green Home Loan Program was a great success, funds were mainly used in Q1.

## MACROECONOMIC OVERVIEW

There was strong GDP growth in the first and second quarters (7.2%), followed by a slowdown in line with international trends.

Gross domestic product increased by 4.6%. From the production approach, value added increased by 5.4% in industry, 3.0% in construction and 7.2% in services, but was 31.2% smaller in agriculture caused by the severe drought experienced in the second part of 2021 and 2022. Services contributed 4.1 pps to the increase in GDP, industry 1.0 pps and construction 0.2 pps, agriculture reduced the GDP growth by -1.0 pps. The volume of exports increased by 10.3% and that of imports by 9.5%.

Average gross earnings per employee was HUF 500,000, a nominal increase of 14% (from HUF 438,800). Unemployment remains low in international comparison at 3.6%.

Inflation has grown significantly from 5.1% in 2021 to 14.5% in 2022. Food and energy prices contributed most, food prices grew by 26%, household energy prices by 21.7% (the price increases would have been even higher, but subsidies freeze prices up to a given consumption limit). For durable consumer goods, the increase was 12.2%. For certain products (e.g., basic foodstuff, motor fuel prices, etc.) price caps were introduced, although the cap on motor fuel was lifted towards the end of the year. Inflation accelerated toward the end of the year to 24.5% in December.

The general government deficit was HUF 4.159 bn, 6.2% of GDP based on preliminary data, total, public debt was HUF 48.8 bn, 73.3% of GDP, at year end.

## LOOKING AHEAD

The decrease in new mortgage loans in the second part of 2022 is expected to continue. The decrease in 2022 was mostly due to the rising interest rate environment, but also to the slowing GDP growth. In Q4 new mortgage loans declined by 54% on a y-o-y basis, from 44% in Q3. In addition, rates of decline are distorted by the high base resulting from the launch of FGS Green Home Programme at the beginning of the year.

As long as high interest rates persist on mortgages, government sponsored loan subsidy programmes maintain their importance. In December, the government decided to prolong certain family support programmes, that originally were expiring at the end of 2022. Accordingly, the prenatal baby support loan, the HPS (Home Purchase Subsidy) and the rural HPS loan programmes will remain in place until the end of 2023. From 2024 the conditions of the prenatal baby support loan (HPS) will change, the HPS loan will not be available anymore in bigger cities. The so-called "home improvement and modernisation loan program" ended in December 2022, while the funds allocated to the FGS Green Home Programme run out in the second quarter of 2022.

## HOUSING MARKETS

Hungary had a population of 9.6 mn people and a stock of 4.5 mn housing units at year end. The homeownership ratio was over 91%, one of the highest in the EU.

In the first half of the year, due to the favourable macroeconomic environment, house prices reached the peak of a multi-year cycle with an almost 25% increase on a y-o-y basis. However, in the second half of the year the economy slowed significantly, a trend that has continued well into 2023. Toward the end of the year, inflation in Hungary accelerated, leading to a decline in disposable real income for households, leading to lower demand for housing.

The number of building permits granted was 35,002 up 17% compared to 2021 (29,941) due to improving investment sentiment (mostly in the first part of the year) and the reinstatement of the preferential VAT rate (5% instead of 27%) for new residential projects started with a valid building permit by the end of 2022. The number of housing units completed was 20,540, a 3% increase compared to 2021 (19,898). However, this figure is only 73% of the level of 2020 (28,158)

In Budapest, 13,399 new permits were issued versus 5,491 in 2021. The number of finished dwellings was 6,610 versus 7,038, so while the number of new permits increased strongly, the number of completions decreased slightly.

In the new housing segment, the housing subsidies available in 2022 stimulated market activity, while the Green Home Programme of the National Bank of Hungary encouraged developers to build environmentally sustainable new residential properties.

Demand and supply, linked to the economic reopening following the pandemic, led to sharp rises in construction material prices and shortages of materials globally. Additionally, the shortage of skilled manpower and construction material in the construction sector also represented an obstacle to achieve better results in terms of house completions in 2022, an aspect that helps explain the contradictory market movements (that is, high growth in permissions and relatively modest growth in the number of finished residential projects and housing completions).

According to the reviewed MBH House price Index (formerly Takaréék House price Index), house prices in 2022 were 21.5% higher than in the previous year. The house price growth in the bigger cities was led by Szeged by 30% growth. In Debrecen house prices on average have grown by 26 %, while the growth in Budapest was more in line with the country average (20,7 %). According to the figures reported in the House Market Report of the National Bank of Hungary, the number of housing transactions was 142,000 during the year.

## MORTGAGE MARKETS

Mortgage loan disbursement reached a record level in Q2. This exceptional growth was a result of the subsidised home purchase loans, the expectation of interest rate hikes and a rise in loan amounts due to rising house prices. Gross lending grew strongly in H1, but due to the strong deceleration in the second part of the year, the yearly growth was only 1.4%.

The outstanding residential loan portfolio to households expanded by 5.2%.

Despite the growth in housing loans in 2021 and the first half of 2022, the mortgage debt-to-GDP ratio at 9.2% is still among the lowest in the EU. Household loan-to-GDP ratio amounted to 13.9% at the end of Q3 2022. After Romania, Hungary has the second lowest household debt ratio in the EU, there is still room for increased domestic loan penetration. In the third quarter, the average household loan-to-GDP ratio of the “Visegrad” countries amounted to 31%, while the average for the euro area was 50%.

With inflation accelerating in the second half of the year, the average interest rate for housing loans increased significantly. For non-state subsidised loans originated in Q4 the rate for loans fixed up to 5 years was 8.1% and 8.6% for 5 to 10 years fixation. However, the vast majority of housing loans have rates fixed for 10 years or until maturity; the average rate on these loans rose to 9.2%. Mortgage loans with variable interest rate were only 1% of total mortgage issuance in 2022.

To mitigate the effects of rising rates, the government introduced interest rate caps on certain types of existing mortgage contracts (variable and 1 to 5 years fixed rate mortgages), with rates frozen at their earlier rate, before the rate hikes. Despite recent rises in house prices, the median LTV ratio of newly disbursed mortgage loans has not increased. In the case of housing loans contracted in 2022, the median loan-to-value ratio was below 50%.

NPLs increased after the end of the pandemic moratoria to 4.2% (from 3.7%).

## MORTGAGE FUNDING

Most mortgage loans are deposit-funded, but covered bonds are also commonly used. 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, as a result of a new regulation, the Mortgage Funding Adequacy Ratio (MFAR) was introduced by the National Bank of Hungary (MNB). According to which 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% was extended to a later date with no definite deadline.

Covered bonds issued by Hungarian credit institutions comply with the European Covered Bond and the European Covered Bond Premium criteria.

## GREEN FUNDING

In July 2021, the preferential treatment of green funds in the MFAR came into force, which contributed to the first domestic green mortgage bonds.

With the start of the MNB's Green Mortgage Bond Purchase Programme, green mortgage bond issuances started in the summer of 2021 and by June 2022 all five mortgage banks were present in the market, with a total of HUF 156 bn of green mortgage bonds issued. This was 9% of the total outstanding mortgage bond stock. As green loan portfolios increase, the share of green bonds is expected to increase.

Another programme 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, the homes subject to the programme 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. Due to the rapidly rising interest rates, the maximum 2.5% interest rate applicable on this type of loan was a great motivation for buyers to apply for this loan facility. The programme was a great success, but the allocated funds (HUF 300 bn) were running out at the end of Q1 2022.

In 2021, in order to encourage green lending in Hungary, the MNB 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 modernising residential buildings.

	HUNGARY 2021	HUNGARY 2022	EU 27 2022
<b>MACROECONOMIC VARIABLES</b>			
Real GDP growth (%) (1)	7.2	4.6	3.5
Unemployment Rate (LSF), annual average (%) (1)	4.1	3.6	6.2
HICP inflation (%) (1)	5.2	15.3	9.2
<b>HOUSING MARKET</b>			
Owner occupation rate (%) (1)	91.7	90.1	69.1
Gross Fixed Investment in Housing (annual change)(1)	-10.4	12.3	1.5
Building Permits (2015=100) (2)	239.2	279.7	125.8
House Price Index – country (2015=100) (2)	234.8	285.4	164.6*
House Price Index – capital (2015=100) (2)	240.6	290.6	163.8*
Nominal house price growth (%) (2)	11.9	21.5	10.6*
<b>MORTGAGE MARKET</b>			
Outstanding Residential Loans (mn EUR) (2)	14,660	14,204	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	1,827	1,780	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	16.3	14.6	71.5
Gross residential lending, annual growth (%) (2) (3)	23.9	-7.1	-6.5
Typical mortgage rate, annual average (%) (2)	4.4	7.4	3.1

\* Please note that this value is the simple average of the available values in 2022.

#### Sources:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2023, Statistical Tables

(3) Considering values in EUR

## 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 commercial banks issued 58.7% mortgage banks 30.3%, home savings cooperatives 11.3% of the new mortgage issuances.
<b>Which entities hold what proportion of outstanding mortgage loans in your country?</b>	Commercial banks hold 59.1%, mortgage banks 31.8%, home saving cooperatives 9.1% of the total outstanding mortgage loan portfolio.
<b>What is the typical LTV ratio on residential mortgage loans in your country?</b>	The typical LTV ratio of the newly disbursed residential mortgage loans is around 60%. (median LTV value was below 50 %)
<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.

#### 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 17,1 years in 2022.

#### 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 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 was initially set at 15%.

From October 2019 the ratio increased to 25% and remained at this level also in 2022.

#### 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 2.9 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), but the funds were also fully allocated during the second quarter in 2022.

A significant part of the new housing subsidies are 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 are available. 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 mn) also helped to stimulate the house purchase possibilities for families and first time buyers.

For home renovations, the Home Improvement Subsidy program was quite successful in 2022 (HUF 3 mn interest free and HUF 3 mn with subsidised interest. According to the National Bank, about 40 % of the loans were used for energy efficient refurbishment purpose. This program ended in December 2022.