

# Hungary

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## IN A NUTSHELL

- House price growth in Hungary has been around 12% in 2017.
- Gross residential lending (disbursement of new housing loans) grew almost by 40% in 2017 compared to the previous year.
- With 15% the proportion of outstanding residential loans compared to the GDP is relatively low in Hungary, which shows that there is further growth potential in gross residential lending.
- There are regulatory incentives on the mortgage market promoting fixed rate mortgages. The proportion of fixed rate mortgages is growing.
- The Mortgage Funding Adequacy Ratio (part of the residential mortgage portfolio must be funded by mortgage bonds) will increase from 15 to 20% in 2018.

## MACROECONOMIC OVERVIEW

In 2017 the volume of gross domestic product increased by 4.0% compared to the previous year. From the production approach, gross value added was up by 3.9% in industry and 32% in construction. Services were up by 3.3%, agriculture fell by 0.9%. From the expenditure approach, the actual final consumption of households was up by 4.1%, and the actual final consumption of the government fell by 0.4%. As a result of the above trends actual final consumption rose by 3.4%. Gross capital formation increased by 15% compared to the previous year. Exports grew by 7.1% and imports by 9.7% in 2017.

Average gross earnings were in December 2017 13.5% higher than a year earlier. As for the whole year both gross and net earnings grew by 12.9% compared to the whole previous year. Unemployment rate reached a historically low figure of 3.8% at the end of 2017.

Consumer prices were higher by 2.1% in December 2017 than a year earlier. On the average for the whole year consumer prices rose by 2.4% compared to the previous year. The highest price growth was observed with alcoholic beverages and tobacco (4.8%) and food (2.8%). Consumers paid 0.3% less for consumer durables.

Hungary posted a budget deficit of 2% percent of the GDP in 2017. The public debt to GDP ratio was 73.6 percent at the end of the year.

## HOUSING AND MORTGAGE MARKETS

### HOUSING MARKET

Hungary had a stock of 4,427,000 housing units at the end of 2017. About 60% of dwellings were built before 1980 and only about 10% were built during the last 15 years. Home ownership ratio is the second highest in the EEA reaching 85.3% by the end of 2017. With the intention to boost new residential construction, from January 2016 the government reduced the VAT on new build dwellings (from 27% to 5%). As a result of this regulatory change the number of building permits grew significantly in 2016 and in 2017. The supply side (housing completions) followed the growth of

permissions with a delay and now the lack of skilled manpower also causes constrains in the construction industry. As the government has already communicated that the reduced VAT regime will not be continued after the end of 2019, developers face a growing pressure to complete new homes in time.

The supply side of the housing market was characterised by growing number of housing completions compared to previous years. In 2017 altogether 37,997 new construction permits were issued and 14,389 new homes were completed. The renewal of the Hungarian housing stock is nevertheless occurring at a slow pace: the proportion of newly built homes compared to the existing stock is only 0.32% per annum, which is very low in a regional/international comparison.

As regards to the Budapest housing market, the completion of new homes will probably peak in 2018-2019, as residential property developers and property experts forecast a completion of 8,800 and 10,000 new dwellings during this and the next year. House prices in the country increased by 11.5% in 2017 compared to the previous year according to the Takarékközpont House Price Index. In nominal terms house prices have increased by 69.3% since the upturn occurred in the second quarter of 2014. House prices have increased above average in the capital in 2017, where the growth was around 16%.

The growth was achieved in a more balanced structure. During 2017 the highest price increase was measured in the larger towns of Central Transdanubia, and the regions of Southern Great Plain and Southern Transdanubia came also close to the second placed Budapest. In absolute terms however Budapest is still the most expensive settlement in the country, the median value of the house prices there is 37% higher than in the second most expensive Western Transdanubia. The price levels at other (rural) regions were about the half or less of what the homeowners of Budapest were to pay in 2017.

According to the figures of the National Statistical Office, the number of housing transactions was 134,000 in 2017.

### MORTGAGE MARKETS

#### Market dynamics

Gross residential lending (disbursement of new housing loans) grew by 38% in 2017 compared to the previous year. The proportion of outstanding residential loans compared to the GDP is very low in Hungary – only around 15% – so there is a further growth potential in gross residential lending. The mortgage lending may occur only in HUF (FX lending was practically banned earlier in Hungary) and a growing proportion of new mortgage loans is based on fixed interest rate period in light of an increased risk of interest rate hikes in the near future.

The growth observed in mortgage lending in 2016 continued and even accelerated in 2017. HUF 727 bn was distributed in mortgage lending, indicating an almost 40% growth compared to 2017. The average annual interest rate on newly disbursed mortgage loans was around 4.7%.

Variable interest rate was not anymore the most typical for new mortgages: in the 4<sup>th</sup> quarter of 2017 the proportion of mortgages with interest period shorter than 1 year was 38.7% and a further growth of fixed rate mortgages is expected in 2018. The ratio of non-performing household loans has further decreased during 2017 compared to the previous year. According to the Financial Stability Report

of the Hungarian National Bank, by the end of 2017 the ratio of loans overdue for more than 90 days decreased in the segment of housing mortgage loans to 4,9% and to 2.6% in case of subsidised housing loans. The NPL ratio for the so called "home equity loans" is still high: it was around 19% at the end of the year.

### NON-MARKET LED INITIATIVES

The National Bank of Hungary supports the spreading of mortgage loans with longer fixed interest rate period through several measures. The so called Certified Consumer Friendly Housing Loans (CCHL) were introduced (loans with an interest period of 3, 5 and 10 years in a fixed scheme). The program was launched in September 2017 and according the National Bank survey the CCHL loans were characterised with higher loan amount (compared to normal mortgage loans) and lower APRC rates.

### MORTGAGE FUNDING

The largest portion of mortgage loans is deposit-funded in Hungary, but covered bonds are also an increasingly used source of mortgage finance. Legal act No. XXX. that was introduced for Mortgage Banks and Mortgage Bonds in 1997 contributed significantly to the establishment of the covered bond market and provided support to mortgage lending activity.

From April 2017 a new regulation (Mortgage Funding Adequacy Ratio) issued by the National Bank of Hungary entered into force. According to the new regulation Hungarian financial institutions were obliged to refinance at least 15% of their outstanding long term residential mortgage loans with long term securities. To comply with the new regulation, commercial banks had two choices: either they entered into refinancing agreements with the already existing mortgage banks or they had to create their own new mortgage bank. By the end of 2016 the number of mortgage banks operating on the Hungarian market changed from 3 to 5. From October 2018 the ratio will be increased from 15 to 20%.

	HUNGARY 2016	HUNGARY 2017	EU 28 2017
Real GDP growth (%) (1)	2.2	4.0	2.4
Unemployment Rate (LSF), annual average (%) (1)	5.1	4.2	7.6
HICP inflation (%) (1)	0.4	2.4	1.7
Outstanding Residential Loans (mn EUR) (2)	14,024	13,602	7,013,738
Outstanding Residential Loans per capita over 18 (EUR) (2)	1,728	1,683	16,872
Outstanding Residential Loans to disposable income ratio (%) (2)	22.7	20.0	73.8*
Gross residential lending, annual growth (%) (2)	25.7	39.3	3.5
Typical mortgage rate, annual average (%) (2)	5.3	4.7	2.4**
Owner occupation rate (%) (1)	86.3	85.3	66.4*
Nominal house price growth (%) (2)	17.3	12.4	6.0

\* The aggregate EU figure is from 2016.

\*\* Please note that this value is the simple average of the typical interest rate of the EU 28 countries.

#### Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2018, Statistical Tables.

### HUNGARY FACT TABLE

#### Entities which can issue mortgage loans:

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

#### The market share of the mortgage issuances:

In proportion to the total volume Banks issued 49,9%, mortgage banks 26,2%, savings banks 3,5% and savings cooperatives 20,4% of the new mortgage issuences.

#### Proportion of outstanding mortgage loans of the mortgage issuances:

Banks hold 57,2%, mortgage banks 27,8%, savings banks 3,3% and home saving cooperatives 11,7% of the total outstanding mortgage loan portfolio.

#### Typical LTV ratio on residential mortgage loans:

The average LTV ratio of the newly disbursed residential mortgage loans was around 55% in 2017.

#### Any distinction made between residential and non-residential loans:

In the residential loan portfolio we understand on the one hand the so called "housing loans", when the purpose of the 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.

#### Most common mortgage product(s):

The most typical mortgage product is the housing loan granted by commercial banks and mortgage banks (purpose is the purchase a flat or house). Home equity loans are much less popular, than before the GFC. Foreign currency loans were prohibited in 2010, and all foreign currency mortgage loans were converted to HUF in 2015.

#### Typical maturity of a mortgage:

Typical/average maturity for a mortgage loan was 14.8 years in 2017. The average maturity has increased compared to the previous year (14.5 years).

#### Most common way to fund mortgage lending:

The most common way to fund mortgage lending is funding from deposit, but since April 2017 commercial banks must adhere to a new regulation introduced by the National Bank of Hungary. From April 2017 the regulation prescribed, that at least 15% of mortgage loans must be funded or refinanced by mortgage bonds. From October 2018 the ratio increases to 20%, so the proportion of residential mortgage loans funded by mortgage bonds is increasing in Hungary.

#### Level of costs associated with a house purchase:

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 4% up to HUF 1 bn (EUR 3.1 mn) per property, 2% above that, but not exceeding HUF 200 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 the property is sold through a real estate agency, a further 3-4% is generally paid by the seller.

Buying a newly built flat is subject to VAT payment (5%)

#### The level (if any) of government subsidies for house purchases:

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 dwelling. In case of families buying a used flat, a smaller lump sum subsidy is also available depending on the number of kids.

The subsidy in this case will vary between HUF 550,000 and max HUF 2,750,000.

From 2018, the extension of already built houses can be fully financed from the subsidies.