



HOUSING MARKET REPORT



2022
NOVEMBER

*'Using our skills, we may be able to build stairs
out of the stones which block our way.'*

Count István Széchenyi



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(November 2022)

The analysis was prepared by Beáta Szabó, Ákos Bereczki, Gábor Hajnal, Csaba Lados, Viktor Dénes Varga, Sándor Winkler
(Directorate Financial System Analysis, Directorate Economic Forecast and Analysis)

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The housing market represents a key area at the level of individual economic agents (households, financial institutions), as well as at the level of the national economy. Housing market developments are closely related to financial stability issues and fundamentally determine short- and long-term prospects for economic activity. Overall, it can be stated that the housing market is integrally linked to every area of the national economy. Housing market developments, in particular the volatility of housing prices, influence the savings and consumption decisions of the household sector via its financial position, and also influence the portfolio, profitability and lending activity of financial institutions via the stock of mortgage loan collateral.

The ‘Housing Market Report’ aims to provide a comprehensive view of current trends on the Hungarian housing market and to identify and present the macroeconomic processes that influence housing market supply and demand. With this publication, the Magyar Nemzeti Bank regularly presents the relevant developments on the Hungarian housing market on a semi-annual basis.

The property market, and within that the housing market, is of key importance for the Magyar Nemzeti Bank in relation to fulfilling its primary tasks, based on inflation and economic considerations as well as financial stability factors. The development of property market supply directly influences economic growth, while oversupply and inadequate supply can also have serious consequences for financial stability. House price appreciation improves the financial status of households, prompting them to increase consumption, which influences both economic growth and inflation. Price appreciation also boosts the lending capacity of financial institutions by reducing their expected losses, which again invigorates the economy through lending growth. The correlation between the mortgage loan market and housing prices deserves particular attention: during business cycles, a mutually reinforcing relationship can develop between bank lending and housing prices.

The ‘Housing Market Report’ provides deeper insight into the factors behind market developments and the system of interactions between individual market agents by presenting a complex, wide-ranging set of information. The housing market already features in the publications of central banks, both in Hungary and at the international level, but typically from the perspective of the main topic of the respective publication. Consequently, the ‘Housing Market Report’ also represents a unique central bank publication at the international level, due to its integrated presentation of the macroeconomic and financial stability factors of the property market. The information used by the publication includes the following:

- The presentation of the macroeconomic environment influencing the housing market is based on the information contained in the MNB’s Inflation Report.¹ Key statistical variables relating to the housing market include changes in the volume of gross value added, and developments in real income and unemployment, as well as changes in the yield environment.*
- The analysis of current housing market developments primarily relies on information provided by the Hungarian Central Statistical Office, the National Tax and Customs Administration and real estate agents. Information on changes in housing market turnover and housing prices can be divided into the differences between new and used housing market developments. In addition to this, data on the regional heterogeneity of the housing market are also used.*
- The experiences and proposals of market participants and general government actors, with the contribution of the Housing and Real Estate Market Advisory Board (hereinafter: LITT), help shed light on the broader questions of housing market trends.*
- The analysis of the residential mortgage loan market primarily relies on the balance sheet data of credit institutions and the interest statistics collected by the MNB; information on the qualitative features of lending developments collected in the Lending Survey² is also used.*

¹ Magyar Nemzeti Bank, Inflation Report: <http://www.mnb.hu/en/publications/reports/inflation-report>

² Magyar Nemzeti Bank, Lending Survey: <https://www.mnb.hu/en/financial-stability/publications/lending-survey>

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1 Executive summary

In 2022 H1, in the favourable macroeconomic environment, the housing market reached the top of its multi-year cycle. In 2022 H2 and 2023, we expect the economy to decelerate significantly: the unemployment rate may rise moderately and households' disposable real income is also likely to decline by the end of this year. These factors point to lower housing market demand. In 2022 Q3, there are several signs implying that there has been a turnaround in the Hungarian housing market, and looking ahead we can expect further deceleration in the domestic housing market, in line with the growth prospects becoming uncertain and rising interest rates on housing loans.

The extraordinary increase in domestic housing market prices continued in 2022 H1. Based on the MNB house price index, house prices rose at an annual rate of 24.8 per cent on a national average in 2022 Q2, versus 21.4 per cent at end-2021. In nominal terms, this was the highest rate of price appreciation measured in the current 9-year housing market cycle. In provincial towns, housing prices rose more than the national average, appreciating by 31.2 per cent in annual terms, while house prices in Budapest increased by 20.4 per cent in one year. The record high price dynamics caused the overvaluation of house prices to reach a high level at 21.5 per cent on a national average. In real terms, house prices rose at a year-on-year rate of 12.8 per cent in 2022 Q2, which, however, falls short of the price increase of 16.1 per cent, the highest value recorded in the housing market cycle that started in 2014. Based on preliminary data, real annual growth in house prices is expected to decelerate significantly, to 1.7 per cent in 2022 Q3.

Demand in the Hungarian housing market fell sharply in 2022 Q3. According to our estimate, the number of transactions dropped by 22.6 per cent, and within that the annual decline in September was as high as 34.2 per cent. Experts participating in the MNB's market intelligence consultation anticipate steadily weakening demand; according to their expectations, the low point in housing market activity may be reached in February–March 2023. They are of the view that the housing market is about to split, with properties featuring poor energy efficiency seeing prices decline, while prices of properties with good energy efficiency will stagnate or rise, and prices of newly completed dwellings will tend to increase further.

In 2022 Q2, the volume of housing loan contracts concluded by credit institutions was at a record high. Disbursements in August, however, already fell by 19 per cent in annual terms. The correction was due to the tapering of new contracts concluded under the FGS Green Home Programme (FGS GHP), demand brought forward to previous months owing to the rising interest environment and the decline in housing market activity. As a result of the continued rise in interest rates on housing loans and increasing prices in the housing market, housing affordability for households not or to a lesser extent eligible for home purchase subsidy fell to a level unseen for years. Based on the responses to the Lending Survey, banks tightened the conditions of access to housing loans in 2022 Q3, and almost all institutions saw a decline in credit demand. Looking ahead to the next six months, tightening may continue by raising the spreads, and in addition to this, the vast majority of banks anticipate a further decline in credit demand.

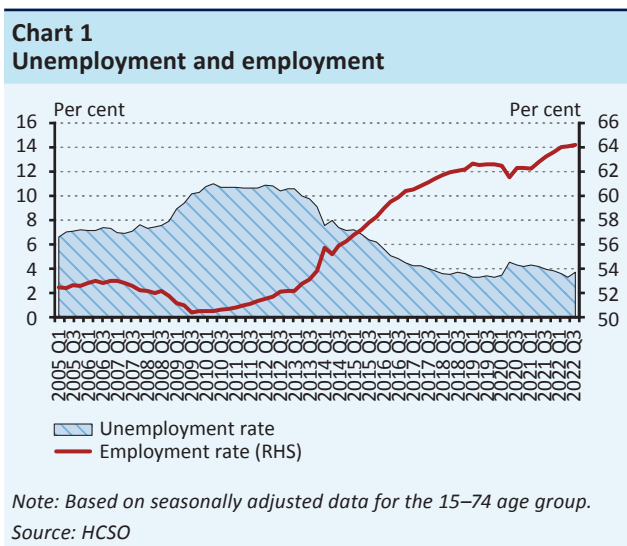
In 2022 Q1-Q3, the number of newly completed homes rose by 7.7 per cent due to the increase in home construction in the countryside. According to our forecast, as a result of the significantly higher number of new building permits in the latest quarters, about 23,000 new homes may be completed in 2022, which would represent annual growth of 17 per cent. On the other hand, we do not expect any further increase in the number of completions in 2023, which is in line with the anticipated economic slowdown and the decline in housing market activity observed from this year. According to developers' expectations, the annual number of completed homes, which has been around 20,000 in recent years, may gradually fall by one half over the next two years owing to the deteriorating economic prospects and in particular to the uncertain demand for new homes. The market of new homes in Budapest shrank both on the demand and supply sides. In 2022 Q3, looking at new condominium projects under development and sales in the capital, the available supply fell by 36 per cent in year-on-year terms, due to purchases brought forward in the first half of the year. In the third quarter, the number of new homes sold in Budapest fell by 40 per cent both in year-on-year and quarter-on-quarter terms, while unsold supply was characterised by dynamic price increases. The average price per square metre of new homes in Budapest rose by 33 per cent in annual terms. Looking ahead, market participants do not anticipate any decrease in the prices of new homes, primarily due to the significant rise in construction costs observed in recent years.

2 Demand in the housing market and house prices

In terms of housing market demand, one critical factor in the coming period may be that, according to our expectations, in 2022 H2 and in 2023 the Hungarian economy may decelerate significantly, in line with weaker domestic and external demand and rising costs for corporations. The number of people in employment has been in a historically high range, while the unemployment rate is low by international standards. On the other hand, increased energy prices accompanied by deteriorating external and domestic economic activity may lead to a moderate rise in the unemployment rate by the end of the year, contributing to weaker housing market demand. The growth rate of households' disposable income declined in 2022 Q2, and from the final quarter of this year households' disposable income is likely to contract, primarily due to the tapering of one-off government grants and inflation exceeding previous expectations.

House prices rose extremely dynamically in 2022 H1, in line with the international trends: after the first year of the coronavirus pandemic, from 2021 the nominal growth rate of house prices accelerated in most European countries. Based on the MNB house price index, house prices rose at an annual rate of 24.8 per cent on a national average in 2022 Q2, versus a rate of 21.4 per cent recorded at the end of 2021, with the former representing the highest annual price increase measured in the current housing market cycle. In real terms, house prices rose by 12.8 per cent year-on-year in the second quarter, but this falls short of the fastest, 16.1-per cent rate recorded in the housing market cycle that commenced in 2014. Based on preliminary data, the annual growth rate of house prices in real terms is expected to decelerate significantly in 2022 Q3, to 1.7 per cent. The price rise observed in the first half of the year was significant primarily in provincial towns and in Budapest. House prices in provincial towns and in Budapest rose in one year by 31.2 per cent and 20.4 per cent, respectively, in nominal terms, compared to the average annual price increase of 15.6 per cent registered in villages. The record high price dynamics caused the overvaluation of house prices to reach an historic peak of 21.5 per cent on a national average by the second quarter.

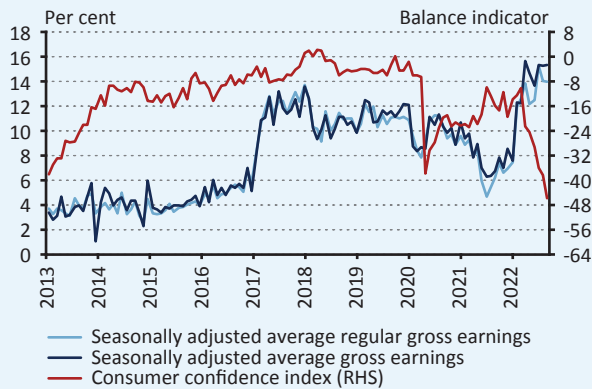
Starting from the third quarter, the first signs of a turnaround, i.e. a significant decline in demand, could be observed in the domestic housing market, and this was also reflected in the falling number of transactions. According to our estimates, the number of purchase transactions in the housing market shrank 22.6 per cent in annual terms in 2022 Q3, with an annual decline of 34.2 per cent in September. In 2022, the ratio of homebuyers for investment purposes was high in Budapest. However, the number of parties selling an earlier housing investment is already consistently higher among sellers, at around 30 per cent.



2.1 ROBUST DEMAND ENVIRONMENT IN THE FIRST HALF-YEAR IS FOLLOWED BY DETERIORATING FUNDAMENTALS

The number of employed remains in a historically high range (Chart 1). In September 2022, the average number of employees aged 15–74 was 4.708 million in Hungary. While a moderate decline was registered versus previous months, growth continued in year-on-year terms: in the period July–September 2022, the average number of people in employment exceeded the figure registered in the same quarter of 2021 by 49,000. The unemployment rate in Hungary is still considered low in an international comparison. The unemployment rate was 3.8 per cent and the number of unemployed was 185,000 in September.

Chart 2
Annual change in average earnings in the business sector and evolution of the consumer confidence index

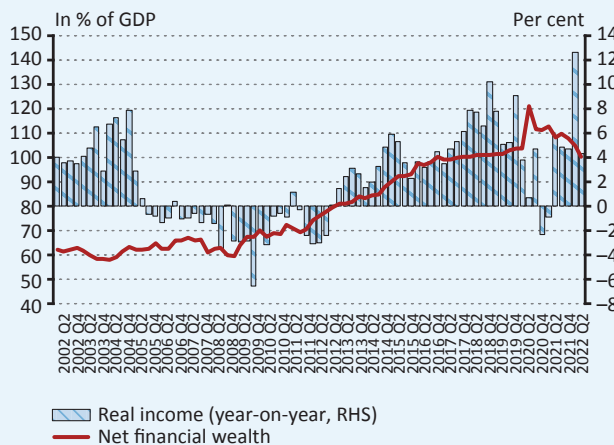


Note: Based on seasonally adjusted data.
Source: HCSO, European Commission

However, the slight increase in the unemployment rate since July continued. According to the corporate survey of the European Commission, in October corporations' expectations with regard to employment varied by sectors. In industry, most companies plan to increase their workforce, while in retail trade, other service sectors and in construction they plan to reduce their workforce in the next three months.

Wage developments remain dynamic. In August 2022, the gross average wage of private sector employees rose 16.2 per cent in annual terms, according to raw data (Chart 2). Regular average wages rose by 14.7 per cent compared to last August in the private sector, while bonus payments exceeded the August average for previous years. Despite the favourable wage-setting trends, the consumer confidence index has been steadily falling since February. The deterioration in consumer confidence may be attributable to the war, rising inflation and energy costs and to the increased presence of general social and economic uncertainty.

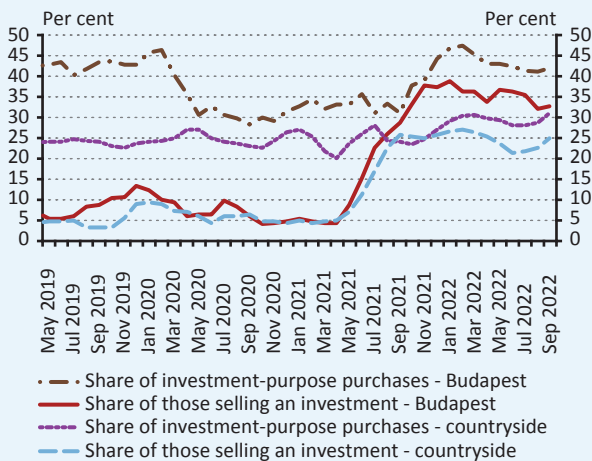
Chart 3
Changes in households' financial assets, liabilities and real income



Source: HCSO, MNB

Increased energy prices, together with the deteriorating external and domestic economic activity, may lead to a moderate rise in the unemployment rate. The number of employed in the private sector is expected to increase by 1.8–2.0 per cent year-on-year in 2022, with stagnation forecast in 2023. However, in parallel with a recovery in economic activity, employment is forecast to grow in 2024. This year, wages of private sector employees have increased dynamically, driven by both the minimum wage increase early this year and the tight labour market conditions. In line with the economic slowdown, we anticipate slower wage growth and a moderate rise in unemployment rate in 2023.

Chart 4
Share of house purchase for investment purposes and those selling their investment

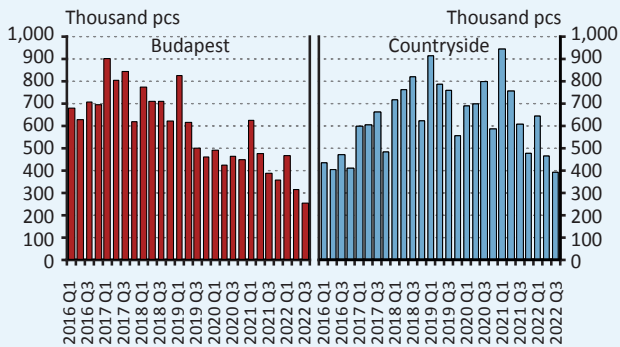


Note: Three-month moving averages.
Source: Duna House

Households' disposable real income is likely to decline from the fourth quarter of this year. In the second quarter, the annual growth rate of households' disposable income declined, while the level of net financial wealth as a percentage of GDP decreased, primarily due to the rise in GDP (Chart 3). Looking ahead, households' disposable real income may decline from the end of the year due to the end of one-off government grants and inflation exceeding our previous expectations. In conjunction with deteriorating income trends next year, we anticipate a temporary decline in savings. Except for the lowest income decile, owing to the increase in real wages in recent years, even the households in the lower income deciles have become net savers, which may ease adjustment to the higher prices.

The ratio of investors on the buyer side of the housing market was higher in 2022 as well. According to the survey conducted by Duna House – a real estate agent – the

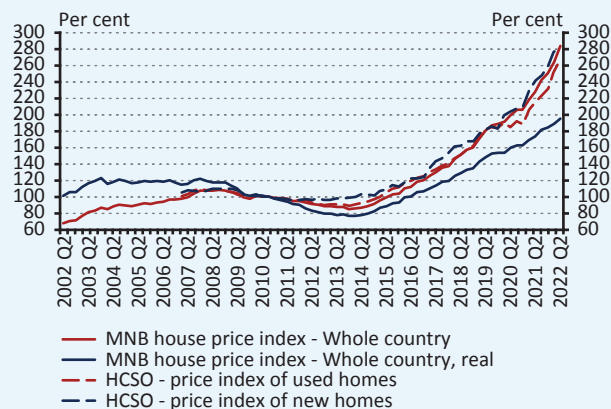
Chart 5
Demand for properties for sale at ingatlan.com



Note: Number of disclosed phone numbers and calls initiated through mobile application.

Source: Ingatlan.com

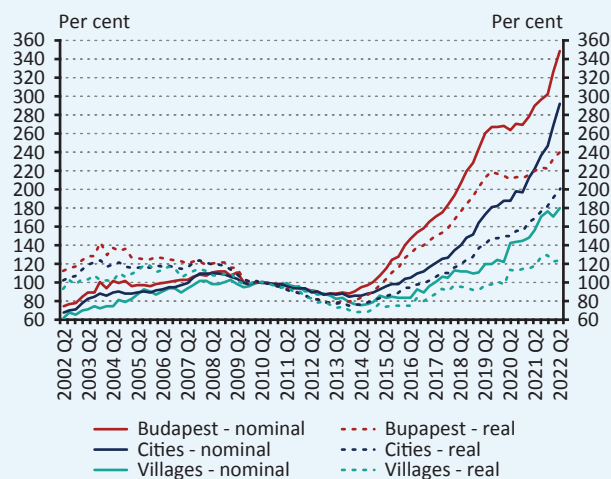
Chart 6
Nominal and real MNB house price index and HCSO's house price indices (2010 = 100%)



Note: Real price index deflated by consumer price index.

Source: MNB, HCSO

Chart 7
Nominal and real MNB house price indices by type of settlement (2010 = 100%)



Note: Real price index deflated by consumer price index.

Source: MNB

proportion of both those buying flats as an investment and those selling a previously purchased investment gradually declined in 2022: thus, in 2022 Q3, 42 per cent of buyers and 33 per cent of sellers were investors, representing a decline of 3 percentage points in both cases compared to 2022 Q1 (Chart 4). In the countryside, the ratio of investors stagnated at 31 per cent among buyers, while it fell by 1 percentage point to 25 per cent among sellers in the same period. The significant rise in the ratio of investors among sellers, registered after the onset of the coronavirus pandemic, persisted, but it still falls short of the ratio of buyers for investment purposes. This implies that the stock of homes purchased as an investment may steadily grow in the higher inflation environment as well.

Demand in the housing market declined significantly.

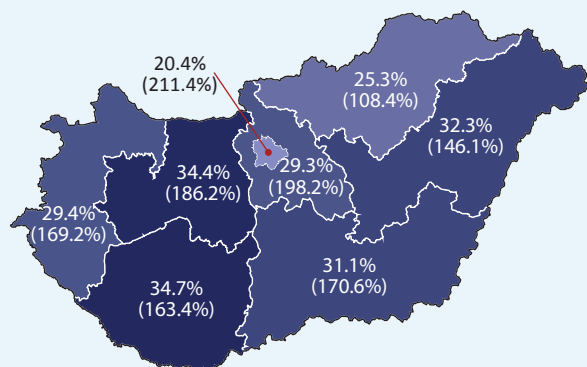
According to data from the advertising portal ingatlan.com, demand in Budapest and in the countryside fell short of the year-on-year figure by 35 per cent and 36 per cent, respectively, in 2022 Q3 (Chart 5). Accordingly, the quarterly number of inquiries in the countryside fell to the level registered in 2016, before the surge seen in recent years. No substantial shift was observed in the ratio of inquiries about flats and detached houses for the last year to date.

2.2 PRICES CONTINUED TO RISE AT AN EXTRAORDINARY PACE IN THE FIRST HALF OF THE YEAR

In 2022 Q2, the rise in housing prices reached the top of the cycle. According to the MNB house price index, residential property prices rose at a quarter-on-quarter rate of 7.6 per cent in nominal terms in 2022 Q2, the fastest rate of increase on a national average since 2014 (Chart 6). As a result of this, the annual nominal growth rate of house prices advanced to 24.8 per cent, which is also the highest rate of price increase in the current housing market cycle. In real terms, the annual growth rate of house prices decreased slightly from 13.3 per cent in 2021 Q4 to 12.8 per cent, which falls short of the annual real price increase of 16.1 per cent, i.e. the top of the cycle. Based on the housing price index of the Hungarian Central Statistical Office (HCSO), the prices of both new and used homes showed diverging trends in the first half-year: the annual nominal price change of the former decelerated from 23.9 per cent, registered at the end of 2021, to 17.2 per cent, while the price increase of the latter accelerated from 22.6 per cent to 23.6 per cent.

The rate of price increase accelerated in the first half of the year in Budapest and the larger settlements. In 2022 Q2, house prices in Budapest, provincial towns and villages rose on average by 7.1 per cent, 8.9 per cent and 5.5 per cent, respectively (Chart 7). As a result of the foregoing, the

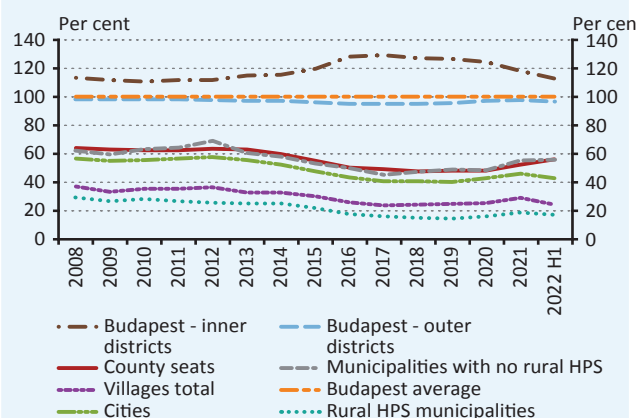
Chart 8
Development of urban house prices by region, 2021 Q2 – 2022 Q2 (2008 Q4 – 2022 Q2)



Note: In the case of 2022 Q2 the Pest region index was made with extremely low processing level, so there may be a substantial revision in the index values later.

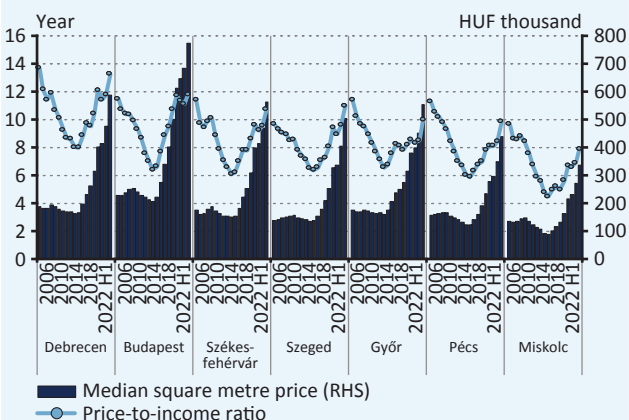
Source: MNB

Chart 9
Average square metre price by type of settlement (average of Budapest = 100%)



Source: NTCA, MNB

Chart 10
Price-to-income ratio in Hungary's regional centres



Note: The price-to-income ratio is the ratio between the price of a 75-square metre median real property (new and used together) and average annual net income of the households. Average incomes are county level data.

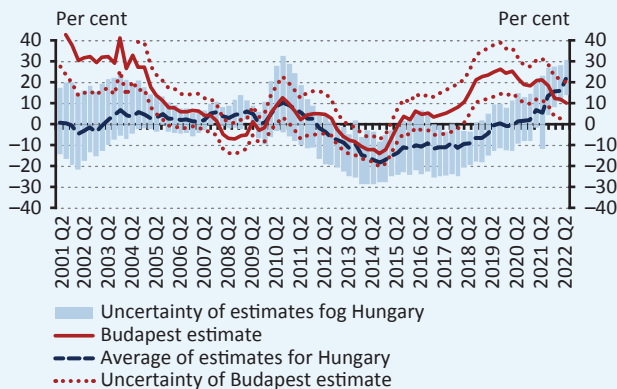
Source: HCSO, MNB

annual nominal rate of price increase in the capital and in the provincial towns rose significantly, from 12.3 per cent registered at the end of 2021 to 20.4 per cent and from 25.4 per cent to 31.2 per cent, respectively, which is an extremely large price increase in one year. On the other hand, the annual dynamics of house prices already decelerated in the villages, falling from 21.3 per cent in 2021 Q4 to 15.6 per cent by the second quarter. In parallel with rising inflation, in the second quarter of this year the annual growth rate of house prices dropped into single digits in real terms, falling to 8.9 per cent in Budapest and 4.5 per cent in villages, while in provincial towns it amounted to 18.6 per cent. Based on transaction data from real estate agents, annual growth in house prices may have decelerated significantly nationwide in the third quarter, amounting to 18.4 per cent in nominal terms and 1.7 per cent in real terms. However, in Budapest the annual nominal price increase may have remained high at 20.8 per cent.

House prices rose significantly in provincial towns across the country in the year to date. In 2022 Q2, a significant price increase in the housing market of provincial towns was observed on a broad basis at the national level, with house prices appreciating more than 25 per cent in the towns of all regions (Chart 8). Prices advanced the most in annual terms in the towns of the Southern Transdanubia and Central Transdanubia regions, where house prices in towns rose by 34.7 per cent and 34.4 per cent, respectively. Over the long term, since the start of the global financial crisis in 2008 Q4, house prices rose to the second largest degree after Budapest in Central Hungary, increasing by 198 per cent in total, followed by the Central Transdanubia and Southern Great Plain regions, at 186 per cent and 171 per cent, respectively.

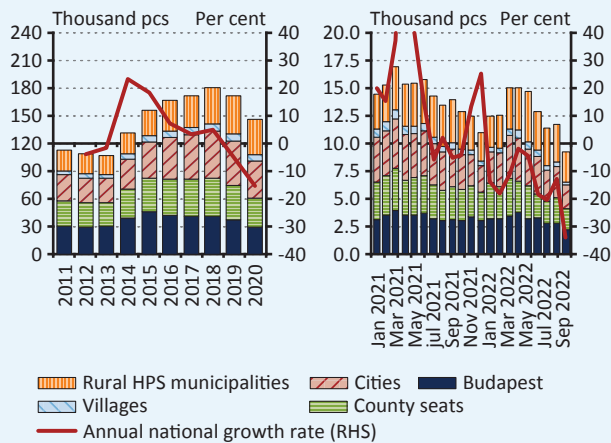
The average price level in county seats approached that of Budapest. In 2022 H1, average price per square metre rose to a larger degree in the county seats compared to Budapest, and thus the price gap narrowed between the capital and the larger provincial settlements (Chart 9). Accordingly, in 2022 H1, average price per square metre in the county seats amounted to 56 per cent of the Budapest average, while this ratio was 52.8 per cent in 2021. On the other hand, this ratio was even higher at the beginning of the current housing market cycle, in 2013, with the average price level of the county seats standing at 63 per cent of that of Budapest. In 2022 H1, the price gap compared to Budapest increased or stagnated in other settlement types. In provincial towns, the level of the average price per square metre compared to the price per square metre in Budapest fell from 46.3 per cent in 2021 to 43.2 per cent in 2022 H1. The relative price level in villages fell from 29.5 per cent to 24.6 per cent compared to Budapest during the same period.

Chart 11
Deviation of house prices from the level justified by fundamentals, nationwide and in Budapest³



Source: MNB

Chart 12
Housing market transactions by type of settlement



Note: Taking into account ownership acquisitions of 50 and 100 per cent by individuals. Between October 2020 and March 2022, data in the National Tax and Customs Administration duty database were adjusted on the basis of the estimated level of processing by type of settlement. From April 2022, based on transactions and estimated market share of real estate agents. According to our estimate, real estate agent transactions accounted for 12.7 per cent and 14.9 per cent of the turnover in the national market and in Budapest, respectively, in September 2022.

Source: NTCA, MNB, housing agent database

House price appreciation exceeded the increase in incomes in all regional centres in the countryside. Following a temporary improvement in the period after the outbreak of the coronavirus pandemic, the relative size of house prices compared to incomes started to rise again in 2021, indicating deterioration in housing affordability. This trend continued in 2022 H1, and in addition to Budapest, the house price-to-income ratio increased significantly in all regional centres in Hungary. The highest rate was registered in Debrecen, where 13.3 years of total average net income was required to buy a median priced flat of 75 square metres in 2022 H1 compared to 11.8 years in 2021. In Budapest, the ratio of house prices compared to average incomes rose to 11.8 years, the highest figure since 2005 (Chart 10).

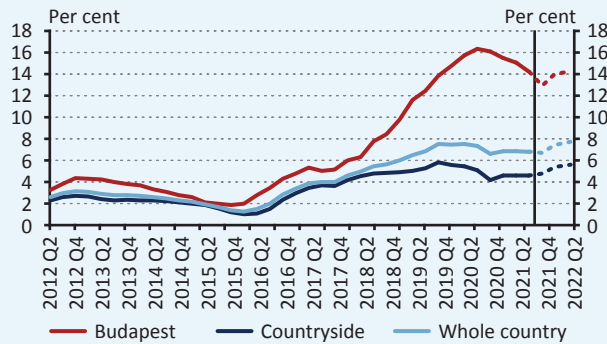
Overvaluation of house prices rose to a historic high on a national average. As a result of the continuing price increase in the housing market in excess of the degree justified by the favourable economic fundamentals, according to our estimate, house price overvaluation rose to a historic high, reaching 21.5 per cent on a national average in 2022 Q2. This phenomenon eased somewhat in Budapest, and according to our estimate the overvaluation amounted to 10 per cent in the second quarter, but this is still quite a high figure (Chart 11). House price overvaluation relative to macroeconomic fundamentals may carry risks in several respects, which justifies close monitoring of the trends. On the one hand, excessively high house prices may put borrowers into a more stretched situation, and on other hand, a correction in house prices may occur, which would also reduce banks' mortgage collateral.

2.3 THE DOMESTIC HOUSING MARKET IS CHARACTERISED BY A DECREASING NUMBER OF SALES AND INCREASING BARGAIN

In 2022 Q3, the number of housing market transactions significantly declined in all settlement types. According to our estimate, the number of private individuals' housing market transactions amounted to 32,300 nationwide in the third quarter, which represents a large, 22.6-per cent

³ The deviation of house prices from the level justified by fundamentals is quantified based on four methodologies. In the report, we publish the minimum, maximum and average values of the results generated by the individual methodologies. The four calculation methods are as follows: 1. Percentage deviation of the ratio of real house prices to disposable real income from the average of the indicator calculated between 2001 and 2020. 2. Estimate of the long-term equilibrium of Hungarian house prices driven by macroeconomic fundamentals by means of a vector error correction model frame (VECM). For a detailed methodology, see: Berki – Szendrei (2017): *The cyclical position of housing prices – a VECM approach for Hungary*, Magyar Nemzeti Bank, OP 126. 3. Estimate of the level of Hungarian house prices driven by macroeconomic fundamentals by means of a dynamic OLS model frame. 4. Deviation of Hungarian house prices from the equilibrium by means of a structural model frame used for forecasting house prices. For more details, see: Magyar Nemzeti Bank: Housing Market Report, October 2016, Box 1. Deviation of housing prices in Budapest from the level justified by fundamentals is quantified by the dynamic OLS model framework; for more details on the methodology, see: Magyar Nemzeti Bank: Financial stability report, May 2017, Box 2.

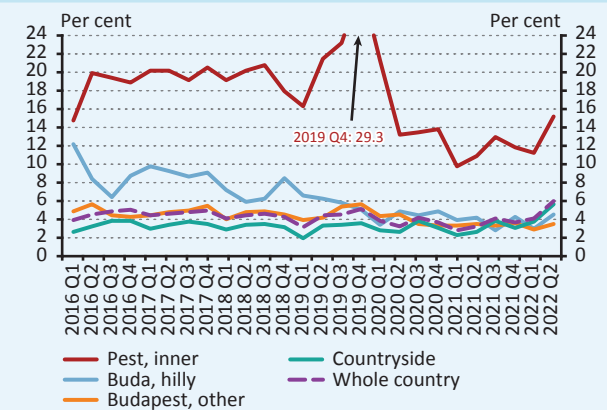
Chart 13
Share of new dwelling transactions within all transactions in Budapest and the countryside



Note: Four-quarter rolling ratios. Only considering purchases by individuals. Estimate based on the number of new completions by companies since 2021 Q4.
Source: NTCA, HCSO, MNB, housing agent database

shortfall versus the prior-year figure of 41,700 (Chart 12). In September, the fall in transactions was even higher, with an annual decline of 34.2 per cent. The last time when the number of sales and purchases in the third quarter was so low, was in 2013, at the turn of the housing market cycle. As regards the individual settlement types, the number of transactions declined in an annual comparison by 16.5 per cent in settlements eligible for rural HPS, by 16.9 per cent in Budapest, by 30.0 per cent in county seats, by 25.9 per cent in other towns and by 36.9 per cent in other settlements. The market shows much lower activity than in previous years. This may indicate a turning point for housing market and foreshadow a significant decline in house price dynamics.

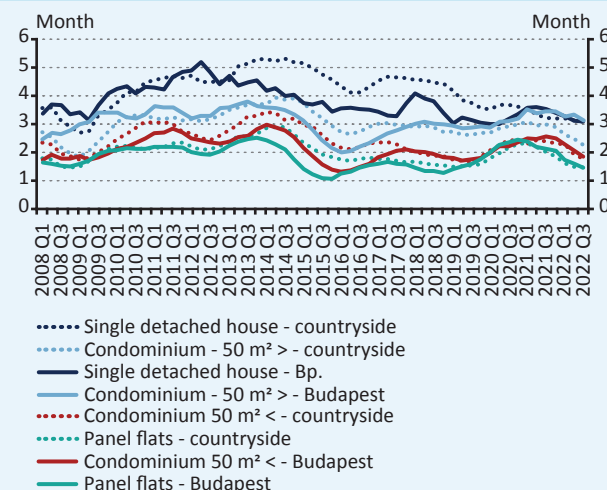
Chart 14
Share of foreign buyers in the housing markets of Budapest and the countryside



Note: Buda, hilly districts: 1st, 2nd, 12th, Inner district of Pest: 5th, 6th, 7th, 8th, 9th.
Source: NTCA

In an annual comparison, the ratio of new home transactions may have increased at the national level in 2022 Q2. According to our estimate, based on the number of new completions by companies, in 2022 Q2 the annual rolling ratio of new home purchases within home purchases by private individuals rose from the prior-year figure of 6.9 per cent to 7.7 per cent at the national level and may have reached the highest value to date in the current housing market cycle (Chart 13). In the countryside, during the same period the ratio of new flats within transactions may have increased from 4.6 to 5.6 per cent. In Budapest, the ratio of new home transactions still declined in 2021, which may have been followed by a moderate rise in 2022; however, the ratio of 14.2 per cent registered in the second quarter falls short of the figure of 15.1 per cent seen a year ago. In parallel with the fall in the number of purchase transactions, the high ratio of new homes nationwide may be attributable to the fact that new completions can adjust to the changed demand conditions only with a delay of several quarters and, in the second quarter, the FGS GHP may still have supported new home transactions on the demand side as well.

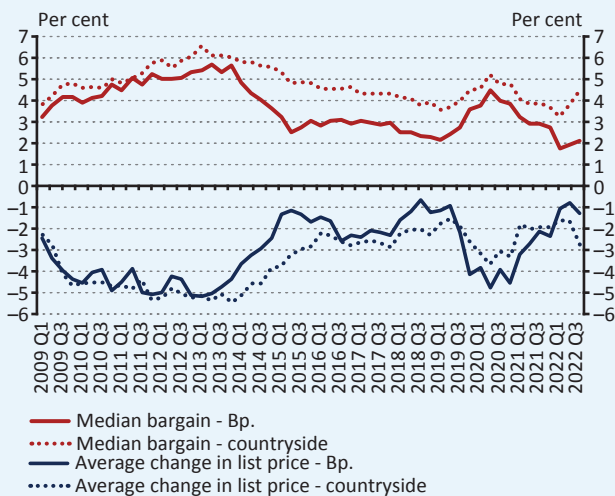
Chart 15
Median time to sell residential property, broken down between Budapest and countryside, and by type of property



Note: Time from the start of advertising to sale. Annual rolling averages.
Source: MNB, housing agent database

The ratio of foreign homebuyers rose significantly, doubling in the countryside in the span of one year. The ratio of foreign buyers in the domestic housing market rose from the prior-year figure of 3.3 per cent to 6.1 per cent in 2022 Q2 at the national level, and this already exceeds the level of 4–5 per cent registered in the period before the coronavirus pandemic (Chart 14). In rural settlements, which account for nearly 80 per cent of housing market transactions, the ratio of foreign buyers doubled from 2.8 per cent to 5.7 per cent during the same period. This is an exceptionally high level in rural areas compared to recent years. The ratio of home purchases by non-residents rose to the largest degree in the Western Transdanubia region, and it is also the highest there, at 13.3 per cent. In the second quarter, more than one quarter of all foreign citizens buying a home in Hungary purchased a property in the Western

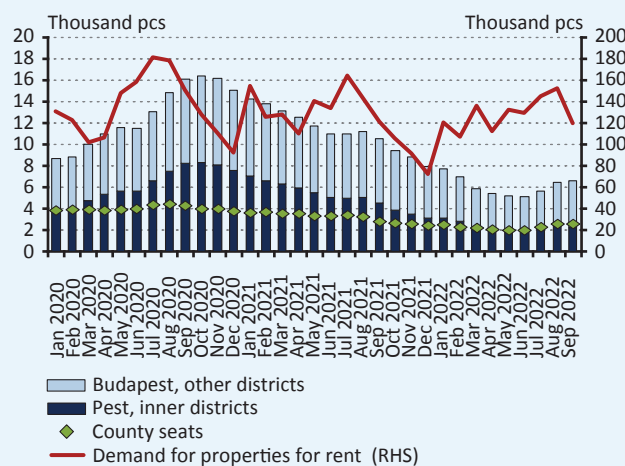
Chart 16
Median bargain in the Budapest and rural housing markets, with the average change to the asking price



Note: Bargain: percentage of drop in the transaction price compared to the last listed price. Change to list price: percentage change applied to the list price during the advertising period.

Source: MNB, housing agent database

Chart 17
Supply of residential properties to let at ingatlan.com on the last day of the given month, and demand for rental flats in the respective month



Note: Demand: number of telephone number disclosures and phone calls initiated from mobile application on the ingatlan.com advertising site Pest, inner districts: 5th, 6th, 7th, 8th, 9th.

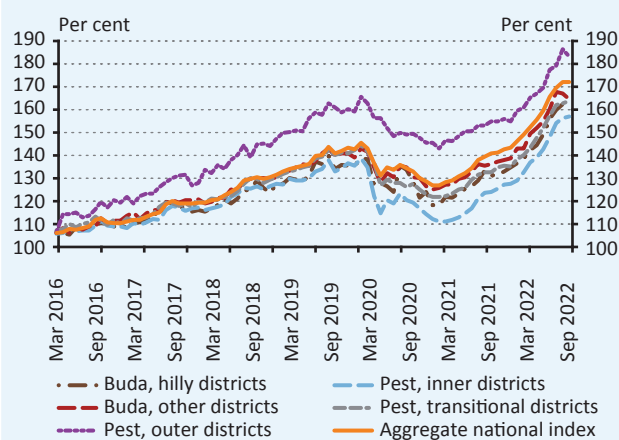
Source: ingatlan.com

Transdanubia region. In the capital, a significant increase was observed in the inner districts of Pest where the ratio of non-resident buyers rose from 10.9 per cent to 15.2 per cent in the period under review; however, this figure still falls short of the level of around 20 per cent, observed in the pre-pandemic years. Following a moderate rise, the ratio of non-resident buyers in the Buda hills districts reached 4.7 per cent, while in other districts of Budapest outside the city centre it has essentially stagnated at 3.6 per cent. A potential reason for the sudden growth in the ratio of non-resident buyers may be the depreciation of the Hungarian currency after the outbreak of the Russia-Ukraine war in February. This provided buyers with savings in foreign currency with a favourable opportunity to purchase property, who thus appeared in the market in a similar number as before, while the number of sales and purchase transactions by residents declined materially.

The time to sell has decreased for all residential property types. In 2022 Q3, the annual rolling average median time to sell for residential property fell to 2.5 months from 2.8 months one year earlier (Chart 15). The median time to sell panel flats and condominium flats larger than 50 square metres declined by 0.6–0.7 month (roughly 20 days) in one year both in the countryside and in Budapest. While for most property types the median time to sell dwellings in countryside and in Budapest is essentially the same, in the category of condominium flats with a floor area below 50 square meters the difference is increasing: in the countryside and in Budapest the typical time to sell a small flat fell from 2.9 months to 2.2 months and from 3.4 months to 3.1 months, respectively. The typical time to sell shortened to a degree below the average in the case of detached houses, from 3.2 to 3.1 months in the countryside and from 3.4 to 3.1 months in Budapest. The shortening of the time to sell may be attributable to the fact that in the past 12 months the government’s pandemic control measures and personal precautions no longer hindered free movement of the population, and thus the satisfaction of demand and supply.

The extent of the typical bargain rose, and during the period of advertising asking prices are usually reduced to a larger degree. After two years of continuous decline, the median market bargain reached the lowest value of the current housing market cycle in 2022 Q1, which was already followed by a rise in the next quarter. In 2022 Q3, in Budapest the median bargain rose from 1.7 per cent in the first quarter to 2.1 per cent, while in the countryside it advanced from 3.2 per cent to 4.5 per cent, which overall implies weakening demand compared to supply (Chart 16). In Budapest, sellers still reduced the asking price only by 1.3 per cent on average, while in the countryside asking prices fell 2.8 per cent on average during the advertising period,

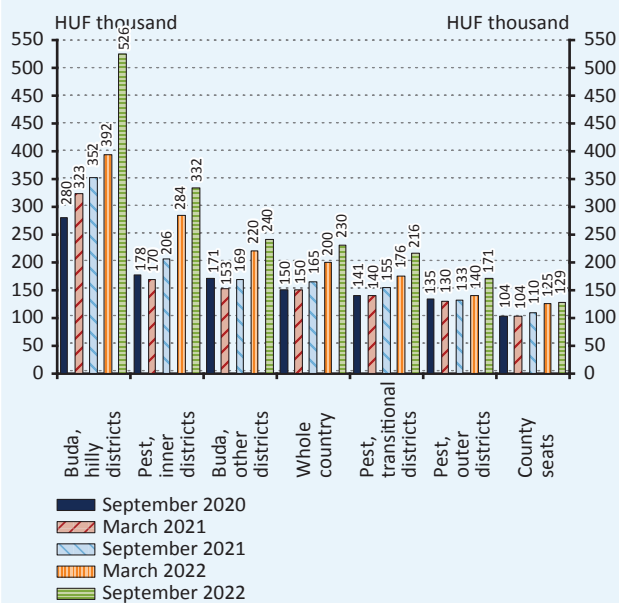
Chart 18
Rent indices of groups of districts in Budapest based on flats to rent advertised on ingatlan.com (2015 = 100%)



Note: Buda, hilly districts: 1st, 2nd, 12th, Buda, other districts: 3rd, 9th, 22nd, Pest, inner districts: 5th, 6th, 7th, 8th, 9th, Pest, transitional districts: 10th, 13th, 14th, 19th, 20th, Pest, outer districts: 4th, 15th, 16th, 17th, 18th, 21st, 23rd.

Source: HCSO-ingatlan.com

Chart 19
Median rents based on flats to rent advertised on ingatlan.com



Note: The rents per category are the average value of the median rental prices in the districts belonging to the respective category, weighted by the number of advertisements. Buda, hilly districts: 1st, 2nd, 12th, Buda, other districts: 3rd, 9th, 22nd, Pest, inner districts: 5th, 6th, 7th, 8th, 9th, Pest, transitional districts: 10th, 13th, 14th, 19th, 20th, Pest, outer districts: 4th, 15th, 16th, 17th, 18th, 21st, 23rd.

Source: HCSO-ingatlan.com

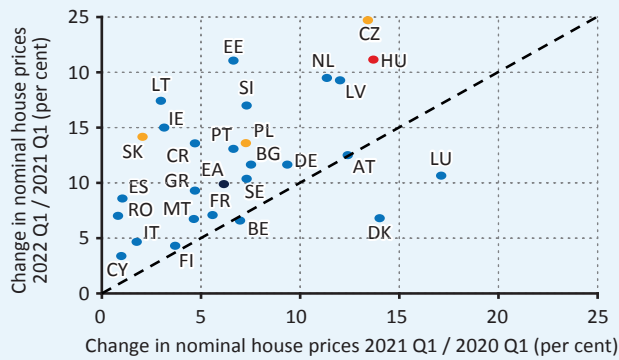
which substantially exceeds the figure of 1.6 per cent for the first quarter. The significant fall in demand and in the number of sales transactions may point to further growth in bargain and an even larger degree of decrease in asking prices, and looking ahead those factors will contribute to a decline in house price dynamics.

2.4 RENTAL SUPPLY HAS STOPPED SHRINKING, AND THE RATE OF INCREASE IN RENTAL PRICES HAS DECLINED

In the second quarter, the supply of available rental flats still contracted, while it grew in the third quarter. Based on data from ingatlan.com, starting from the extremely low level of 1,900 flats, registered in May 2022, the supply of available rental flats in the county seats has started to rise substantially, and thus at the end of September there were already 2,500 properties to let in the rental markets of the county seats (Chart 17). However, this was not yet able to fully offset the earlier rapid contraction in supply, and thus there is still a shortfall of 9 per cent in year-on-year terms. Trends in Budapest were similar; however, due to the growth in rental supply in summer, it concentrated primarily in the outer and transitional districts. Rental supply in the capital reached its low in June 2022. At that point, in the inner districts of Pest 2,000 flats were offered for long-term rental on the ingatlan.com advertising portal, while in other districts of Budapest 3,100 flats were offered, with these figures rising to 2,200 and 4,400, respectively, by the end of September. However, in parallel with the quarterly growth, rental supply in the inner districts of Pest and in other districts declined by 51 and 28 per cent, respectively, at an annual level. Meanwhile, there was still no steady fall in demand for rental flats. The number of disclosed phone numbers and calls initiated through mobile application on the ingatlan.com portal in 2022 Q3 was broadly the same as in the same period of 2021.

The annual growth rate of rents declined between June and September 2022. In 2022 Q3, the quarterly growth rate of rents fell from 8.6 per cent to 4.2 per cent in Budapest and from 8.6 per cent to 3.9 per cent nationwide, compared to the previous quarter, according to the HCSO-ingatlan.com rent index (Chart 18). On a monthly basis, rents in Budapest already decreased by 0.1 per cent in September, while on a national average they rose by merely 0.1 per cent. The deceleration in the price increase may have been also attributable to the growing supply in the third quarter. On the other hand, at an annual level, in Budapest the rate of price increase still rose slightly, from 24.0 per cent registered in June 2022 to 24.2 per cent, while at the national level it sank from 23.4 per cent to 22.4 per cent. In the individual district groups of the capital, similar to

Chart 20
Changes in nominal house prices in Europe

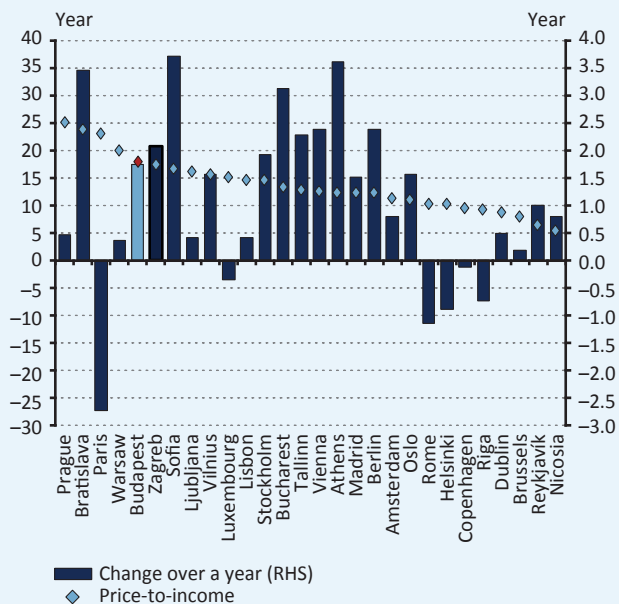


Source: BIS, MNB

Budapest as a whole, rent dynamics already decreased at a quarterly level, but it still rose in an annual comparison. The largest increase in prices was observed in the inner districts of Pest.

Significant differences have developed in median rent levels in the individual district groups in the capital. In September 2022, the available rental supply in the hilly districts of Buda comprised properties of extremely high rent, typically at HUF 526,000 per month, which represents growth of HUF 174,000 in one year (Chart 19). However, the rise may have been also attributable to the increase in the ratio of properties with larger floorspace. There was also a significant increase in the inner districts of Pest, which have the most active rental market. Here, in parallel with the narrowing of available supply, median asking rents rose by HUF 126,000 in annual terms, reaching HUF 332,000. During the same period, median rents in the other districts of Buda, the transitional districts of Pest and the outer districts of Pest reached HUF 240,000, HUF 216,000 and HUF 171,000, respectively, with increases of HUF 71,000, HUF 61,000 and HUF 38,000, respectively. In the county seats, the typical rent of flats to let rose from HUF 110,000 to HUF 129,000 in one year.

Chart 21
Price-to-income ratios in European capitals (2022 Q3)



Note: The price-to-income ratio is the ratio of the average housing property prices outside the city centre to the national average wage. Calculations based on 75-square metre homes. Change between 2021 and 2022 Q3. Budapest is marked with a different colour.

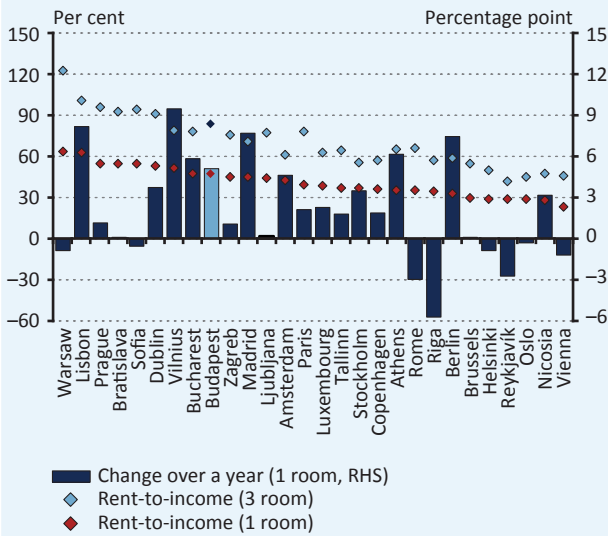
Source: Eurostat, Numbeo.com

2.5 HOUSING AFFORDABILITY DETERIORATED IN EUROPE

The more moderate rate observed during the pandemic was followed by accelerating nominal house price dynamics across Europe. Between 2021 Q1 and 2022, in the majority of EU Member States the rise in nominal house prices accelerated compared to the rate observed in the previous year, which was hit hardest by the pandemic (Chart 20). However, this also coincided with a rise in inflation, and thus, in real terms, a rise in the rate of house price appreciation was only observed in about half of the EU countries. In the period under review, year-on-year house price appreciation in Hungary advanced from 13.6 per cent to 21.1 per cent in nominal terms and from 10.2 per cent to 11.9 per cent in real terms, whereas for the other Visegrád countries it accelerated on average from 7.5 per cent to 17.5 per cent in nominal terms and from 5.4 per cent to 6.7 per cent in real terms. Accordingly, the Hungarian housing market was once again characterised by a higher rate of appreciation compared to the countries in the region.

European capitals are characterised by deteriorating housing affordability in 2022 as well. In 2022 Q3, Budapest was the fifth least affordable capital in Europe in terms of the price-to-income ratio, which corresponds to the ranking one year ago. One year ago and this October, buying a 75-square metre residential property in Budapest required

Chart 22
Rent-to-income ratio in European capitals (2022 Q3)



Note: The rent-to-income ratio is the quotient of the rent for a typical rental flat in the capital outside the city centre and the national monthly net average income. Change between 2021 and 2022 Q3. Budapest is marked with a different colour.

Source: Eurostat, Numbeo.com

16.3 and 18.0 years of national average income, respectively (Chart 21). In a European comparison, housing affordability deteriorated at a similar rate as in Budapest, with the median house price/income ratio for European capitals rising from 11.0 to 12.8 years. Affordability deteriorated in the capitals of the other Visegrád countries, with a property of 75 square metres of average price level requiring an average national income of 25.3 years in Prague, 23.8 years in Bratislava and 19.9 years in Warsaw.

Housing affordability in the rental market of Budapest deteriorated over the past year. The rent for a typical 3-bedroom or 1-bedroom flat in the Hungarian capital is 83.3 per cent and 47.1 per cent of the average net wage in Hungary, respectively (Chart 22). One year ago, these ratios were 74.4 and 42.0 per cent, respectively, which shows that growth in incomes has not kept pace with rental growth. By contrast, affordability in the other Visegrád capitals has remained largely unchanged, but they still belong to the group of least affordable cities in Europe: In Prague, the rent/income ratio for a one-bedroom flat is 54.9 per cent, in Bratislava 54.5 per cent and in Warsaw 63.4 per cent. We get a similar picture of housing affordability when examining the disposable income at purchasing power parity remaining with the tenant after paying the typical rent for a 1-bedroom flat from an average wage. This figure at purchasing power parity is EUR 711 in Budapest, EUR 704 in Prague, EUR 571 in Warsaw and EUR 493 in Bratislava. By contrast, in the capital of Austria, the purchasing power of the remaining income after rent is close to EUR 1,800.

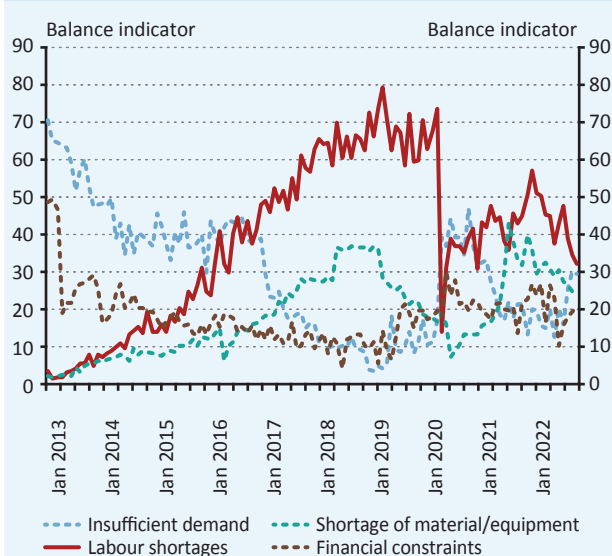
3 Supply of new homes

The shortage of labour continues to significantly curb the performance of construction companies in 2022, albeit to a decreasing degree. This may also be attributable, via the increased energy prices, to the additional rise in the prices of energy-intensive construction materials. The postponement of public investments and the declining volume of ongoing commercial property development projects may free up construction capacities for residential construction. The prolongation of the preferential VAT rate on housing also continues to support growth in home construction.

Thanks to growth in the second and third quarters, the number of completions in the countryside rose 7.7 per cent in the first three quarters of 2022. According to our forecast, in total about 23,000 new homes are expected to be completed in 2022, which would correspond to annual growth of 17 per cent. On the other hand, we already anticipate stagnation in completions in 2023, in line with the expected economic slowdown and the decline in housing market activity that has been observed from this year. The number of building permits issued rose 15.8 per cent in the first three quarters of the year, in an annual comparison, primarily as a result of substantial growth in the number new permits in Budapest.

Based on the certificates issued, the energy efficiency of the domestic stock of residential properties is unfavourable on the whole; moreover, the geographic distribution of residential properties with poor energy efficiency is uneven. Support programmes aimed at improving the energy efficiency of residential properties are available in a wide range of European countries. The most common form of these is the partial funding of renovation work, primarily to improve energy efficiency. The market of new homes in Budapest shrank both in terms of demand and supply. In 2022 Q3, the number of flats in new condominium projects under development and sales in the capital amounted to 14,300. This reflects growth of 3.3 per cent in annual terms, but falls roughly 15 per cent short of the stock of new homes on the market in the period 2016–2020. The decline in available supply has stopped compared to the previous quarter, but in an annual comparison the number of newly completed homes available for sale in Budapest (4,400) is 36 per cent lower. In the third quarter, the number of new homes sold in the capital fell by 40 per cent both in year-on-year and quarter-on-quarter terms, while unsold supply was characterised by dynamic price increases.

Chart 23
Constraints on construction output



Note: Seasonally adjusted series.

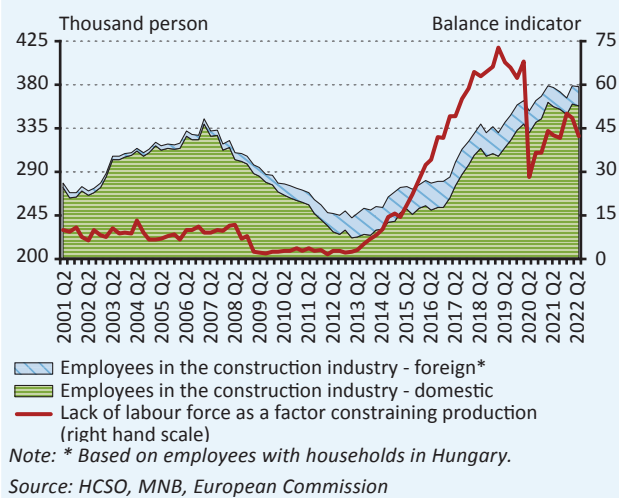
Source: European Commission

3.1 SIGNIFICANT INCREASES IN CONSTRUCTION COSTS

The shortage of labour continues to significantly curb the performance of construction companies, albeit to a decreasing degree. While at the beginning of the year almost half of the respondent construction companies mentioned that labour shortage had curbed their performance, by October this ratio had declined to nearly 32 per cent. In parallel with this, shortages of raw material hindered almost 26 per cent of companies in October, compared to about 30 per cent at the beginning of the year (Chart 23). On the other hand, financial constraints and insufficient demand hindered the production of construction companies to an increasing degree in recent months, and the latter has become already the second most important factor hindering production.

The number of construction employees remains above its pre-crisis peak from 2008. Following the financial crisis, the number of employees in construction declined and, in

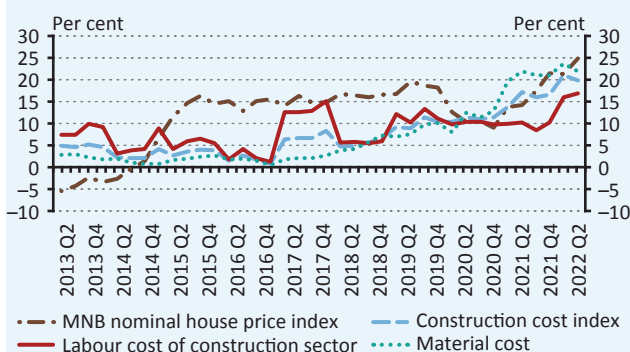
Chart 24
Number of employees in the construction industry



In addition to this, a large number of construction workers went to work abroad. In the years thereafter, employment in construction gradually increased. In 2020 and 2021, as result of the pandemic, some of the specialists working abroad returned to Hungary, which may have contributed to the decline in the labour shortage. In the past decades, the number of employees in domestic construction was high, at nearly 350,000 (Chart 24).

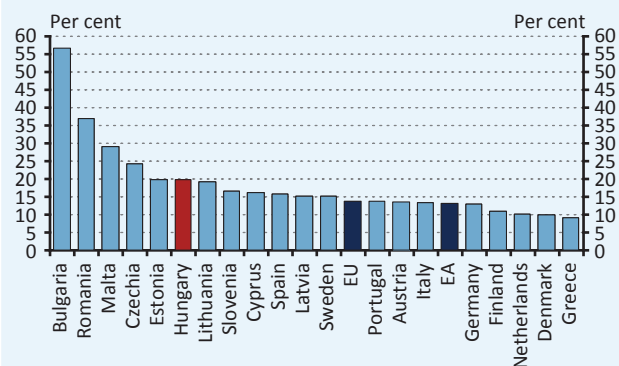
The anticipated decline in public investments may free up construction capacities for home construction. According to our expectations, the volume of public investments will decline both in 2022 and 2023, due to the announced rescheduling of capital expenditures. In line with this, the volume of new contracts for the construction of other, non-building structures fell in August by 69 per cent on an annual basis. The decline in public investments along with the decreasing volume of commercial property developments in progress may free up capacities in construction, supporting growth in home construction on the supply side.

Chart 25
Annual change in home construction costs and nominal house prices



According to data from the Hungarian Central Statistical Office, the increase in home construction costs was high. In the second quarter, the cost of materials increased by 21.7 per cent in year-on-year terms. Construction labour costs also rose significantly, rising by 16.7 per cent, while overall housing construction costs increased by 19.7 per cent on an annual basis (Chart 25). Looking ahead, the recent rise in energy prices may lead to additional price increases, primarily in the manufacture of energy-intensive construction raw materials (including cement, bricks and glass).

Chart 26
Annual changes in construction costs of residential buildings in EU members in 2022 Q2

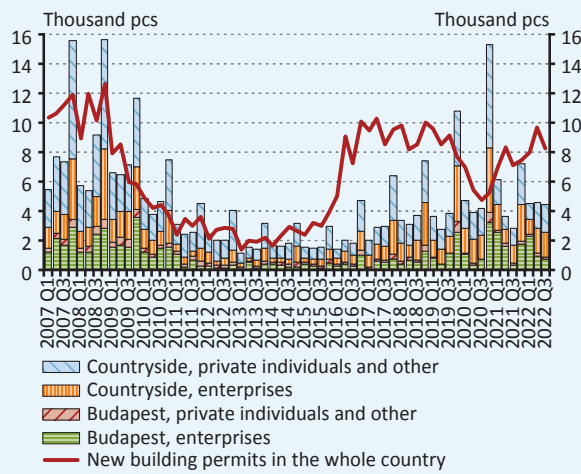


The rise in domestic construction prices was the sixth largest in an EU comparison in the second quarter. In 2022 Q2, a year-on-year increase in home construction costs of 19.7 per cent was registered in Hungary, which was the sixth highest increase in the EU, based on available data. Home construction costs rose in the European Union and in the euro area by 13.7 per cent and 13.1 per cent on average, respectively, in an annual comparison (Chart 26).

3.2 THE NUMBER OF NEWLY BUILT HOMES MAY STILL INCREASE IN THE SHORT RUN

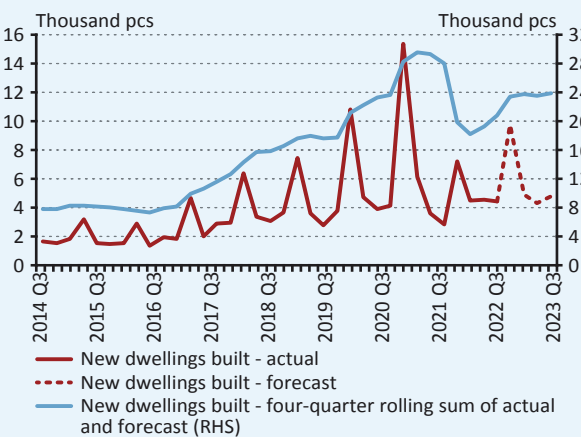
The number of completed, newly built homes once again rose from the second quarter In the first three quarters of 2022, occupancy permits were issued for 13,617 new homes in total, representing a year-on-year increase of 7.7 per cent. Compared to the fall in the first quarter, in the second and third quarter the number of completed

Chart 27
Distribution of new completions by location and developer



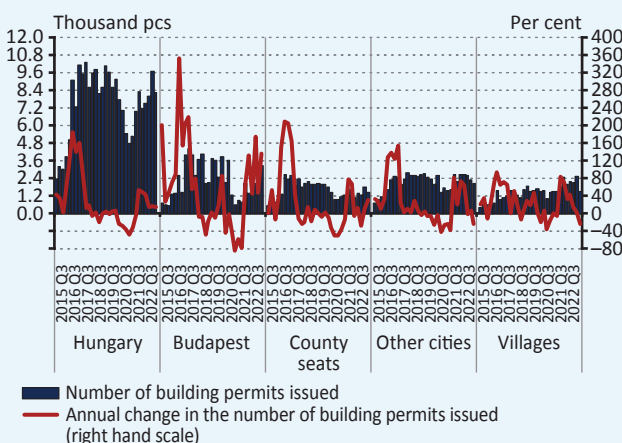
Source: HCSO

Chart 28
Forecast for the number of dwellings receiving occupancy permits



Source: HCSO, MNB

Chart 29
Number of dwellings included in issued residential building permits and annual growth rate by type of settlement



Source: HCSO

new residential properties rose by 26.4 and 57.5 per cent, respectively, presumably due to the renewed rise in the number of building permits issued since 2021. In the first three quarters, the number of completed new residential properties (detached houses) commissioned by natural persons in the countryside rose by 29.6 per cent. The largest decrease was recorded in Budapest, where the number of completed new homes built in business projects fell by 10.6 per cent in an annual comparison in the same period (Chart 27).

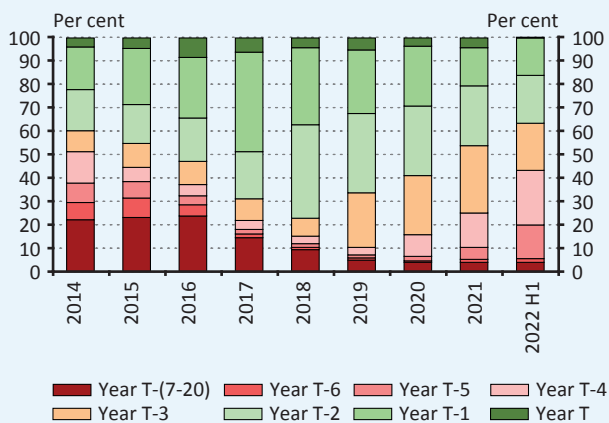
In 2023, the completion of new homes may stagnate.

According to our forecast, about 23,000 homes may be completed in 2022 as a whole, representing annual growth of 17 per cent (Chart 28). However, no further growth may be expected in completions next year. In line with the economic slowdown and weaker housing market demand, we already expect the number of completed new homes to stagnate in 2023. The substantial deterioration in the affordability of home purchases may also lead to a fall in completions. On the other hand, the downside risks are mitigated by the fact that the government has extended the applicability of the preferential, 5-per cent VAT on housing until the end of 2028 for properties obtaining a building permit before the end of 2024. It may also raise the number of occupancy permits to be issued in the next quarters, albeit to a lesser degree, that the government has withdrawn the nearly-zero energy demand criterion applicable to new homes, which entered into force on 1 July 2022, until June 2024, which on the whole eases the situation for developers.

The number of new residential construction permits issued rose significantly.

In the first three quarters of 2022, construction permits were issued for 25,984 new homes in total, representing growth of 15.8 per cent compared to the first three quarters of 2021 (Chart 29). The growth in the number of dwellings included in building permits is attributable almost in full to the construction of residential buildings planned in Budapest. In the first three quarters, building permits were issued for 8,400 new homes, which is a 99.3 per cent increase in an annual comparison. The significant rise in the number of dwellings in new permits may also have been attributable to the temporary effect of the preferential VAT on housing. In other settlement types, the number of dwellings in new permits essentially stagnated or changed only to a small degree. Towns of county rank registered growth of 1.0 per cent, while other provincial towns and villages saw a fall of 7.3 per cent and 2.0 per cent, respectively, in the first three quarters. In Budapest the strong growth in the number of dwellings included in issued residential building permits was primarily attributable to the fact that in 2020, when the preferential VAT on housing was temporarily suspended and the

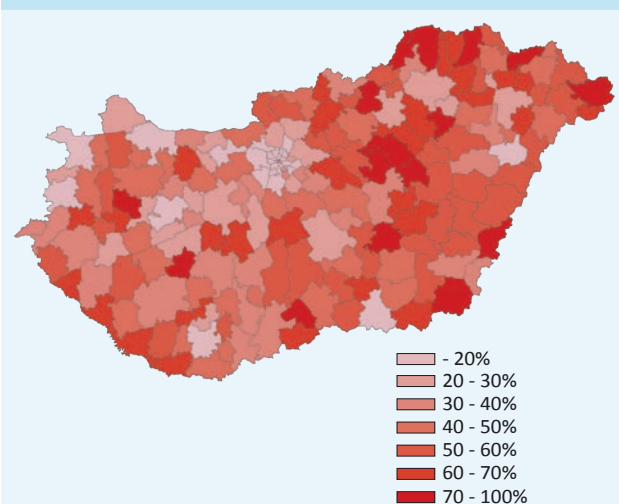
Chart 30
Distribution of dwellings completed by year of original building permit



Note: Annual number of occupancy permits by the year of the first construction permit issued for the flats.

Source: HCSO

Chart 31
Proportion of poor (HH) or worse classification in energy certificates issued for residential properties since 2016 by local administrative units



Source: Lechner Knowledge Centre

coronavirus pandemic set it, willingness to build declined the most here, and thus the growth in the number of new permits was realised starting from a low base.

In 2021 and 2022 H1, the time needed for construction and obtaining a permit grew further. In the case of 46 per cent of new homes that received the occupancy permit in 2021, the time of construction and obtaining the permits was shorter than 3 years from the date when the first building permit was issued (Chart 30). The same indicator was higher in 2020 and 2019 at 59 and 66 per cent, respectively. The construction time, i.e. the time elapsed between the building permit and the occupancy permit has been steadily increasing for newly built homes since 2019. This is also evidenced by the fact that within completed homes the ratio of dwellings that obtained a building permit at least 4 years ago rose from 10 per cent registered in 2019 to 43 per cent by 2022 H1. Construction times grew in 2021, despite the fact that on the whole the number of completed new homes declined, which is presumably also due to the fact that the number of detached home projects requiring shorter construction times declined in 2021.

Based on the energy-efficiency certificates issued, the territorial distribution of residential properties with poor energy efficiency is concentrated. Since 2016 about 919,000 energy-efficiency certificates have been issued for residential properties in total, covering 20 per cent of the domestic stock of dwellings. Thus, it may provide a realistic view of the entire stock of dwellings in terms of energy efficiency. 30 per cent of the issued certificates contain a classification of HH, i.e. poor or worse. The energy efficiency of these properties is at least three times worse than the nearly-zero energy requirement level and only 3.5 per cent of them achieve the latter level, i.e. the BB category. On the other hand, the geographical distribution of energy-efficient and energy-inefficient residential properties is extremely uneven within the territory of Hungary (Chart 31). In 16 districts, more than 70 per cent of the issued certificates belonged to the three categories of the poorest classification, i.e. HH or worse. Several of these districts are located in the northeast region of Hungary. On the other hand, in twenty-six districts – typically in Budapest, Pest county and in the northwest region of Hungary – the ratio of residential properties with classification CC or better exceeds 30 per cent. The regional concentration of residential properties of favourable energy efficiency is partly due to the fact that a significant share of the new home construction in recent years was concentrated in these regions.

Box 1**Measures to improve the energy efficiency of the stock of dwellings in Europe**

Due to the energy crisis in the wake of the Russia-Ukraine war and the sharp increases in households' utility costs, improving the energy efficiency of residential properties may become of key importance both for property owners and governments in Europe in the near future, and it is also essential for achieving the climate targets. In this box, we present the typical measures taken by European governments to improve the energy efficiency of the stock of properties.

(1) Co-financing energy-efficiency improving renovations through non-refundable aids

Programmes that provide partial financing for renovations usually define the range of work to be supported (e.g. replacement of windows and doors, modernisation of heating system, thermal insulation, installation of solar cells, modernisation of lighting), the implementation of which is financed by the government at a specific ratio (in several countries 60 per cent, in Bulgaria even 100 per cent, in Estonia 30–50 per cent depending on geographic regions). In Slovenia, a fixed, nominal-amount aid is available: the amount of aid provided by the government is EUR 220/square metre for natural heat insulation and EUR 190/square metre for synthetic heat insulation. In Vienna, the aid intensity is 20–40 per cent, and its rate can be defined in two ways: based on the absolute energy efficiency index achieved through the renovation or as a percentage of the floor area, based on the savings in kWh realised on the annual energy consumption. Aid at an increasing rate may be received for better energy indicators and higher energy savings. In Germany, the maximum aid intensity of comprehensive renovations was reduced from 55 per cent to 25 per cent in August 2022. On the other hand, the aid available specifically for the modernisation of heating is higher than that: it provides financing at the rate of 25–40 per cent depending on the type of the replaced heating system and the newly installed heat pump system. Accordingly, the government's focus has shifted from achieving the largest possible reduction of carbon dioxide emissions to the replacement of heating systems, with a view to accelerating the reduction of the dependency on Russian gas.

In certain cases, it is not or not only the range of subsidised work that is specified, but rather it is expected that the energy-efficiency classification of the building should improve at least by one grade (Romania), should reach a certain level ("C" in the United Kingdom) or become nearly-zero energy demand (Slovenia). In Vienna, the minimum requirement is either a specific level or an improvement of a certain degree. In line with the foregoing, the range of eligible buildings is often limited to properties with poorer energy-efficiency ratings (United Kingdom) or to properties built some time back (Vienna, Estonia, Slovakia, Slovenia).

The aids usually have a maximum limit, the amount of which may be influenced by other factors as well. In Estonia, the limit for buildings comprising a maximum of two homes – also differentiated by regions – is EUR 20,000-40,000, for condominiums EUR 1 million in the case of comprehensive renovation and EUR 100,000 in the case of partial renovation; in Romania it is EUR 14,400 for detached houses, in Slovakia for detached houses it is EUR 14,000 for primary energy saving of 30–60 per cent compared to the original condition and EUR 19,000 for saving over 60 per cent. In Vienna, the limit is proportionate to the floorspace, scaled between EUR 60 and EUR 190 per square metre together with the aid intensity.

Individual states usually finance the aids from EU funds or from the central budget, while for the method of allocation there are both centralised and decentralised solutions. An example for the first is Estonia, where it is performed by a state investment bank, and an example for the latter is Bulgaria, where the allocation of funds is the duty of local governments. In the United Kingdom, in September 2022, roughly half of the amount earmarked for aid was allocated to the Social Housing Decarbonisation Fund to support the renovation of buildings by providers of social housing.

As regards the schemes of individual countries, the combination bonus applied in the Czech Republic is a unique element, which fosters the performance of as many types of energy-efficient and environment-friendly renovation

works as possible by providing households with a bonus aid of CZK 10,000 (roughly EUR 400) subject to fulfilling all specified combinations of the works (i.e. installation of green roof with solar cells).

(2) Non-refundable aid for the purchase or construction of homes with nearly-zero energy consumption

In Slovenia, the construction or purchase of new one-unit or two-unit properties with nearly-zero energy consumption is financed by the government, depending on the energy consumption and the type of insulation material, in the amount of EUR 75–150 per square metre, which currently amounts to 2–4 per cent of the average price per square metre of a new flat. A purchase aid of EUR 100 per square metre for a maximum of 80 square meters of the net heated and ventilated areas of flats in new, multi-unit buildings with nearly-zero energy consumption may be requested, while the aid available for flats in older, but fully renovated multi-unit buildings for the same area is EUR 150 per square metre. Accordingly, in Slovenia the state fosters not only an improvement in the quality of the existing stock, but also the penetration of flats with the best energy-efficiency indicators within the supply.

(3) Preferential loans for the energy-efficiency renovation of homes

In Luxembourg, property owners living in buildings older than 10 years may apply for a “climate loan”, the condition of which is the submission of a preliminary energy-efficiency renovation plan prepared by an expert. Low-income households can take out an interest-free climate loan of a maximum EUR 50,000 with 15-year maturity, while other households may take out a climate loan in the maximum amount of EUR 100,000 with an interest subsidy of 1.5 percentage points.

In the Netherlands, the energy saving loans available for a specific range of renovation works are disbursed by a non-profit financial institution. Accordingly, in this case the favourable interest rate, fixed until maturity, is partially ensured by absence of spreads for profit, and also by the fact that no consulting, appraisal, prepayment and – in the case of private individual debtors – notarial fees are connected to the loans. The loan is available both for private individuals and – subject to relying on the assistance of an energy expert – residential communities comprising of at least 8 homes. By default, the maximum loan amount for private individuals is EUR 25,000 and for residential communities EUR 30,000 per flat; however, subject to complying with strict energy-efficiency conditions, it may rise to EUR 50,000 in both cases, or even to EUR 65,000 subject to achieving maximum zero-energy consumption net, at an annual level. Low-income households are entitled to interest-free loans in this case as well.

(4) Debt-cap allowances for purchasing energy-efficient homes on credit

In the Netherlands, subject to purchasing a home with outstanding energy-efficiency or a home with net zero-energy demand, EUR 9,000 or EUR 25,000, respectively, can be deducted from the loan amount for the purposes of assessing the stretched income situation (PTI) of the debtor. In addition, the lender may also deviate from the regulation upward in the maximum loan amount; in the case of flats with extraordinary energy efficiency, the loan amount disbursed may be as high as 106 per cent of the value of the flat (maximum LTV).

(5) Partial refund of the loan amounts taken out for thermo-modernisation

In Poland, a wide range of applicants (natural persons, local governments, residential communities, social housing association, enterprises) are entitled to a thermo-modernisation bonus, if the implementation of a thermo-modernisation project is financed from a loan taken from a specific range of banks. In addition to improving the energy efficiency of residential and utility buildings, this may also include the development of local heating infrastructure, networks and sources of heat. The bonus is disbursed by BKG (the Polish development bank) in the form of partial loan repayment. The rate of the bonus may be 16 per cent of the loan amount, or – in the case of installing a renewable energy source – 21 per cent of the loan.

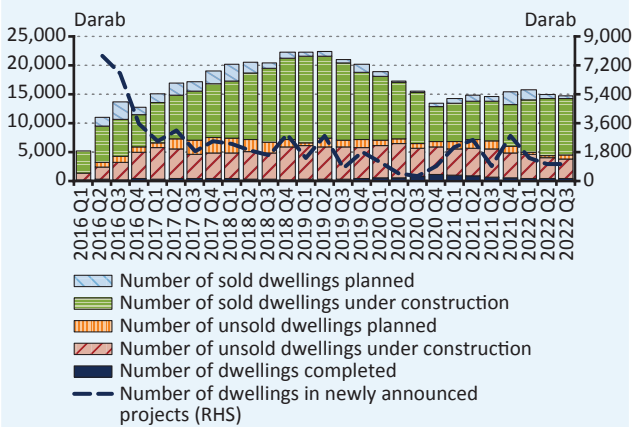
Summary of the examined measures

Name of measure	European country(ies)* applying the measure	Main features of the measure
Partial financing of energy-efficiency improving renovations through non-refundable aids	Austria (Vienna), Bulgaria, Czechia, Estonia, Germany, Romania, Slovakia, Slovenia, Slovakia, United Kingdom	<ul style="list-style-type: none"> – For a specific range of works – Aid intensity mostly specified as a percentage Vienna: intensity may be based on the level of the achieved energy-efficiency quality or the degree of energy saving Czechia: combination bonus Slovenia: aid in proportion to floorspace Germany: higher aid for the replacement of heating systems to reduce dependency on gas – Maximum amount
Non-refundable aid for the purchase or construction of homes of nearly-zero energy consumption	Slovenia	<ul style="list-style-type: none"> – Aid in proportion to floorspace – The aid for old condominium flats renovated in full is higher than for new condominium flats
Preferential loan for the energy-efficiency renovation of homes	Luxembourg, the Netherlands	<ul style="list-style-type: none"> – Interest subsidy or non-profit pricing – Interest-free loan for low-income applicants – Maximum preferential loan amount – May be conditional on the involvement of an energy expert
Debt-cap allowances for purchasing energy-efficient homes on credit	Netherlands	<ul style="list-style-type: none"> – Part of the loan amount can be disregarded for the purposes of calculating the payment-to-income ratio – Higher maximum LTV
Partial refund of the loan amount taken for thermo-modernisation	Poland	<ul style="list-style-type: none"> – Available to a wide range of applicants – In addition to improving the energy efficiency of residential buildings also for the development of local heating infrastructure (networks and sources of heat)

Note: *The collection is not comprehensive and contains not only current programmes.

Source: MNB collection

Chart 32
Availability of new homes under development and sale in Budapest and number of new announcements



Note: Based on projects with at least four new homes in Budapest.

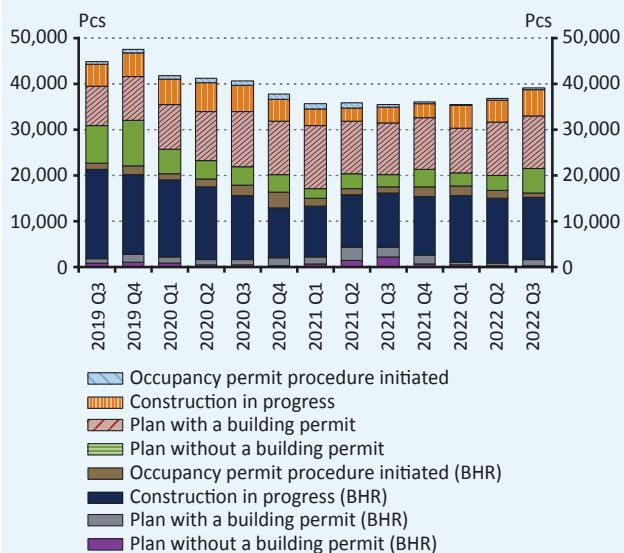
Source: ELTINGA-Budapest Housing Market Report

3.3 THE MARKET OF NEW HOMES IN THE CAPITAL SHRANK BOTH IN TERMS OF DEMAND AND SUPPLY

The new home market of Budapest is characterised by a low number of homes newly entering the market and scarce available supply. In 2022 Q3, the number of flats in new condominium projects under development and sale in Budapest was 14,300. This represents growth of 3.3 per cent in annual terms, while in quarter-on-quarter terms it reflects a decline of 1.4 per cent (Chart 32). On the other hand, compared to the average recorded during the period of the preferential VAT on housing in 2016–2020, the stock of dwellings under development in the market is roughly 15 per cent lower. The scarcity of new home supply in the capital is evidenced by the fact that the number of available flats in projects for sale fell to 4,438 homes, after a decline of 36 per cent, by 2022 Q3. However, compared to the previous quarter, the decline in available supply halted, and a rise of 3 per cent was observed due to the low number of transactions. In the period under review, 1,032 newly completed homes were put up for sale in Budapest, which corresponds to the number of dwellings newly marketed in the previous quarter, while it falls short of the 2021 quarterly average by 50 per cent.

In 2022, the number of housing developments launched but not yet marketed has increased. In 2022 Q3, 39,100 homes were under development in Budapest, representing a year-on-year increase of 10 per cent. 18,000 of the homes are still in the planning phase, while the construction of 19,000 flats has already commenced. The number of dwellings in projects in the phase of obtaining a building permit rose by 58 per cent compared to the second quarter. Almost 60 per cent of the homes under development have not yet been announced for sale; in recent years, this ratio was around 50 per cent, while in this category the number of homes under construction or already completed rose by 19 per cent compared to previous quarter, and thus about 6,000 flats may come onto the market in the near future (Chart 33). Between 74 and 73 per cent of the flats in Budapest projects under construction and completed, respectively, were offered for sale in 2022 Q3, while only 8 per cent of the flats on the drawing board were available for purchase. For flats under construction and available off the drawing board, sales are typically scheduled to allow developers to control construction costs, which are increasingly difficult to predict.

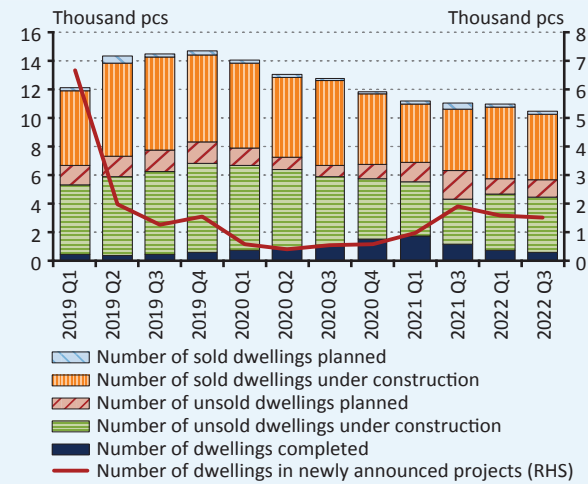
Chart 33
Housing stock under development in Budapest



Note: Flats in the BHR categories are also included in the Budapest Housing Market Report, i.e. they are for sale.

Source: ELTINGA – Budapest Housing Market Report, Building Permit Monitor

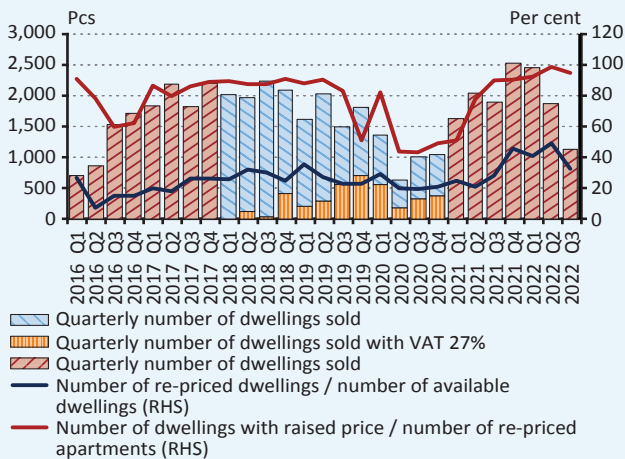
Chart 34
Number of homes in new condominium projects for sale in the countryside



Note: Based on projects with at least four new homes.
Source: ELTINGA – Countryside Housing Market Report

Available supply of new homes in the countryside declined despite more moderate sales. In 2022 Q3, the number of homes in projects in the sales phase amounted to 9,916, which is almost the same as the development activity registered a year ago. In the second and third quarters 1,866 homes were sold in total in the countryside, which is a decline of 30 per cent in year-on-year terms. Nevertheless, the number of unsold homes declined further; following an annual decline of 10 per cent, 5,630 newly completed home were available in September 2022 (Chart 34). More than half of the homes under development in the countryside are being built in 10 districts; the largest number, 1,289 flats, are in the Siófok district, followed by towns with automotive industry, i.e. Győr, Debrecen and Kecskemét.

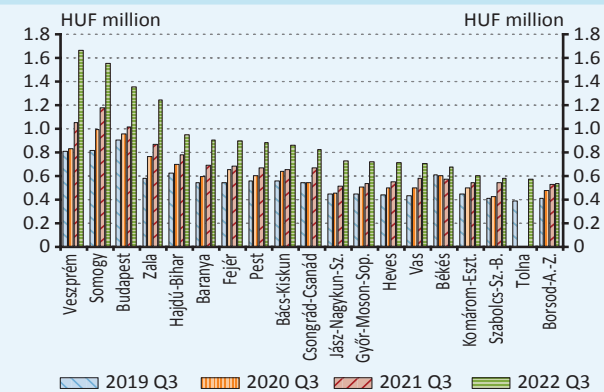
Chart 35
Number of new homes sold in Budapest, and ratio of repricing within the advertised new homes



Note: Based on projects for more than four new homes.
Source: ELTINGA-Budapest Housing Market Report

In the third quarter, amidst dynamic price increases, the transaction number in the market of new homes in the capital declined significantly. The number of new homes sold in Budapest in 2022 Q3 was moderate, with 1,125 new condominium units sold (including pre- and final contracts), falling short significantly, by 40 per cent, of the sales both in the second quarter and year-on-year. The decline in the number of transactions for new homes may have also been partially caused by demand brought forward to previous quarters due to the FGS GHP. In the quarter under review, the ratio of repriced flats within unsold supply declined from previous quarter’s level of 48.8 per cent to 32.3 per cent, which may have been also attributable to the falling demand. Within repriced homes, the ratio of those the price of which was raised decreased slightly, from 98.2 to 94.8 per cent, but this is still an extremely high ratio (Chart 35). Within repriced homes, prices were raised during the quarter by 9.3 per cent on average. During the quarter, the price of 33 per cent and 24 per cent of unsold homes with energy-efficiency certificate of at least BB and CC category, respectively, was raised. The average degree of repricing within these two energy-efficiency categories was +9.5 and +7.8 per cent, respectively.

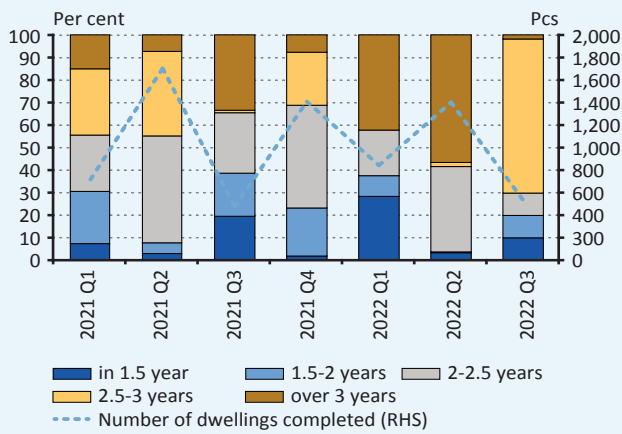
Chart 36
Development of the average square meter price of new dwellings



Note: Based on projects for more than four new homes.
Source: ELTINGA-Budapest Housing Market Report, Rural Housing Market Report

The unit price of new homes around Lake Balaton already substantially exceeds the average level registered in the capital. The unit price of homes announced in new housing projects in the third quarter of 2022 was the highest in Veszprém county (north shore of Lake Balaton), where the average asking price per square metre was HUF 1.7 million. Prices there rose 58 per cent year on year and have doubled since 2019 (Chart 36). Somogy county includes the second most expensive projects in the Lake Balaton region, with an average price per square metre of HUF 1.6 million. This is followed by the capital, where the average price per square metre for newly built homes is HUF 1.35 million, with an annual growth rate of 33 per cent. Within the agglomeration, new homes are offered for sale for over one million forint per square metre in Ráckeve, Budakeszi, Érd

Chart 37
Distribution of the construction time of new housing projects under sale in Budapest by quarter of completion

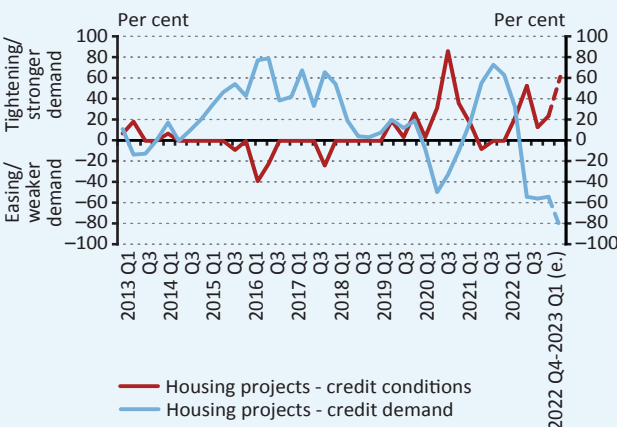


Note: Based on projects for more than four new homes.
 Source: ELTINGA-Budapest Housing Market Report

and Székesfehérvár, and Debrecen is also characterised by similar levels. In most counties, the unit price of newly built homes rose in one year by 20–30 per cent and by 50–60 per cent versus 2019 Q3, while the smallest price increase, merely 11 per cent, was observed in Békés county.

For most new housing developments completed in the capital since 2021 construction took 2–3 years. For two thirds of the new housing developments in Budapest completed since 2021 and for sale, construction took 2 to 3 years, but the length of construction is influenced substantially by the number of units in the project. During this period, the number of units under construction in the capital rose by 18 per cent. While 57 per cent of the homes completed in 2022 Q1 were built in 2 years, in the second quarter only 30 per cent of the completed homes met this criterion. In the first and second quarter, the development of 844 and 1,405 new homes, respectively, was completed in Budapest. In 2022 Q3, the ratio of homes completed within 2 years declined further, falling to about 20 per cent, and the vast majority of those were developed for 2.5–3 years, which may have been also attributable to the increased shortage of raw material that has been seen for several years now (Chart 37). In 2022 Q3, 59 per cent of new homes under construction or planning in Budapest were delayed compared to the originally announced expected completion, and 22 per cent of those accumulated a delay longer than one year.

Chart 38
Credit conditions of housing projects and changes in demand



Note: Net ratio of the difference between tightening and easing and banks indicating stronger and weaker demand weighted by market share.
 Source: MNB, based on banks' responses

In 2022 Q3, the decline in credit demand continued in the case of residential property project financing loans. Based on responses to the Lending Survey, a net 24 per cent of banks tightened financing conditions for housing projects in 2022 Q3, citing industry-specific problems. Looking ahead to 2022 Q4 and 2023 Q1, a net 62 per cent of banks foresee further tightening due to problems affecting the sector (Chart 38). In 2022 Q3, a net 54 per cent of respondent institutions reported a decline in credit demand for housing projects, with the vast majority of them attributing this to the rising interest rate environment. Due to rising loan interest rates and declining willingness to invest in property, a net 84 per cent of banks expect further decline in credit demand in the next six months.

Box 2**Summary messages of the market intelligence consultation with actors of the housing market**

With a view to monitoring housing market trends and identifying potential risks, the Magyar Nemzeti Bank deems it important to consult market participants. Such consultation took place in October 2022 with market participants in property development, intermediation and financing. Participants discussed the current situation and trends in the housing market, with special focus on housing policy, the fall in housing demand, housing developments and financing trends.

Housing policy

In the discussing housing policy, all of the participants in the consultation agreed that housing plays a key role in society and is also a fundamental factor in terms of family policy, population policy, urban policy and climate policy. Accordingly, the housing policy measures of recent years must be maintained, but changes may also be necessary. The annual renewal rate of the housing stock in Hungary has lagged behind the EU average for the last 12 years. During this period, the construction of about 100,000-150,000 homes did not materialise. Due to this, fresh, high quality supply, built relatively recently, is missing from the market of used homes. In Hungary, the largest volume of energy is consumed by flats. Significant savings could be realised in this area by promoting the renovation of buildings. At present, the housing market is about to split, where properties with poor energy efficiency will see declining prices, the prices of those with good energy efficiency will stagnate or rise, and the price of newly completed supply will rise further. In connection with prices, it was noted that residential construction was hit by multiple cost shocks in recent periods. Developers said that as a result pricing in the market of new homes is based on costs and is thus unlikely to decline. According to market participants, in the periods ahead as many new homes will be built as are demanded, and thus oversupply will not develop to a degree that would reduce prices. According to developers' expectations, the annual number of completed homes of about 20,000 that has been observed in recent years may fall by one half in Hungary over the next 2 years, due to the deteriorating economic prospects.

Market participants believe that housing problems must be addressed even under the changed economic circumstances. The government should consider both immediate and medium-term measures. In connection with this, experts agreed that the general government is also faced with a difficult situation over the next one and a half or two years. Accordingly, housing policy measures should be calibrated in such a way that they burden not the period of 2023 and early 2024 in the budget. Participants emphasised that – in connection with programmes aimed at maintaining the supply of new homes – one important criterion is that they should foster new demand and should be targeted, generating new demand by the time of recovery, which would support projects other than those already in progress. Similar to what was mentioned in previous consultations, market participants continue to regard a long-term approach and the development of a stable, predictable regulatory environment as the most important factors.

The housing and construction market trends of recent years well reflect the procyclical nature. Anticipating an economic slowdown in the market, a wait-and-see attitude by investors is a natural reaction. Market experts believe that countercyclical intervention by the government would be desirable to prevent the housing market from running dry and ensure that the capacities (e.g. engineering, construction material supply, contractors) built up in the past 10 years in connection with the developments do not disappear.

Market experts also raised a local problem, as they noted that Debrecen is short 3,000–5,000 homes, which would be able to accommodate workers for the factories moving there. This housing issue also jeopardises the feasibility of new investments.

In connection with the green transition in the housing market, it was mentioned that two regulatory changes recently hindered the spread of sustainability criteria in the housing market: the postponement of the application of the regulation prescribing the occupancy of buildings with nearly-zero energy consumption until mid-2024 and the termination of the balance-based settlement of solar systems to be implemented by households and enterprises.

Some market participants believe that sustainability criteria should be harmonised in the various regulations and consistent support should be provided for activities that foster the green transition.

Housing demand and housing developments

Following the decline in housing transactions in recent months, falling demand was also reflected by stagnating house prices in September. In addition, the rise in the number of residential property advertisements posted in September was accompanied by a declining number of inquiries, i.e. demand and supply moved in opposite directions. Some market participants believe that prices in the market of used home had risen to such a degree in recent years that prices may already start to decline from this level.

Housing developers mentioned that, with the current rate of increase in construction costs, it is not profitable to pre-sell unfinished homes, and they do so only because of the financing institutions' requirements. With the typical 20–80 per cent payment schedule and keeping buyers' payment on a security account, they only have access to revenues fixed in pre-sales two years later. As regards demand, there is demand for residential development in the inner districts of Budapest; however, interest in new homes has declined significantly and it is uncertain in the case of new projects whether there will be any buyers in 2024. Some of the market participants mentioned that demand had changed significantly in 2022 Q3: compared to June, purchases of new homes on credit had virtually stopped, while others said that the ratio of such had declined, and even buyers for investment purposes were opting for smaller flats. In a year's time, demand for new homes may rise again, and on the whole prices are expected to stagnate in real terms.

The annual absorption and sales volume of the new housing market in Budapest was around 10,000 homes in recent years. Some experts believe that with the declining demand this number may fall to 3,000 in 2023; by way of comparison: the historic low was in 2009 with the sale of 1,500 new homes. The launch of developments is questionable, in view of the high costs of finance and reduced demand. Housing transaction data are available until September 2022: they already reflect a significant drop, and up to September the population had not yet seen the utility costs for the winter. Market participants anticipate a steady decline in demand and according to their expectations the worst may come in February–March 2023. Due to the decline, even a spiral may develop in the housing market as a result of expectations. In addition to the foregoing, at present there is an increase in the number of foreign buyers. Some of the experts highlighted the interlinking of the new and used home markets, since new homes are often purchased in parallel with selling a used home. Based on this assumption, a decline in the market of used homes also has a negative impact on demand for new homes.

Financing

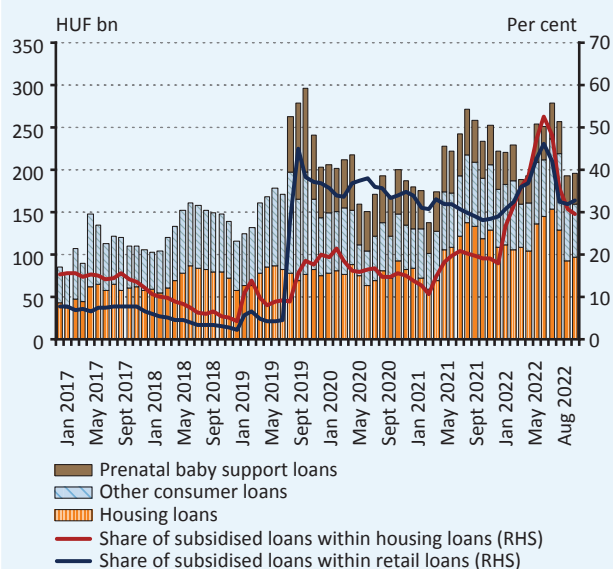
In terms of lending for housing purposes, at the beginning of summer 2022 demand was significantly overheated; however, since then lending activity has tapered off substantially and households will be faced with higher utility costs in autumn 2022. In terms of financing housing projects, the biggest risk for banks is whether there will be enough buyers for the new flats. Some believe that it is better to wait until the end of the less favourable economic situation. In order for there to be renewed expansion in financing, it is essential that banks perceive growth in demand. Although banks are less willing to expand more in commercial property financing, the financing of gated communities has the greatest chance to survive among the real estate projects, which may also provide construction with work.

The rise in the costs of finance for housing developments financed by banks is an even greater competitive disadvantage compared to non-financed developments, where the buyers' deposits are used instead of loans at high interest rate. On the other hand, buyers are more secure financially in the case of developments financed by project loans. According to market participants, the practice applied in Poland and the related legislative environment is a good example of how housing developer's demand for project financing loans can be kept low by the continuous absorption of buyers' deposits linked to phases of construction, while at the same time also maintaining buyers' financial security.

4 Lending and subsidies for housing

In 2022 Q2, credit institutions concluded a record-setting volume of housing loan contracts with households. However, starting from June loan disbursements declined in annual terms. The correction may have been also attributable to the reduced volume of new contracts under the FGS GHP, demand brought forward due to the rising interest environment and the decline in housing market activity. In August, the number of new housing loan contracts fell 19 per cent short of the figure registered one year ago. According to our estimate, the ratio of house purchases on credit declined to 45 per cent. In parallel with the lower weight of FGS GHP, both the average contracted amount and maturity showed corrections compared to the previous months for all housing purposes. In the second quarter, the median of the loan-to-value ratio declined, while interest rates on housing loans rose further, in conjunction with a widening gap between the transaction interest rate and the interest rate paid by the customer, which is attributable to the significant role of subsidised loans. Based on the responses to the Lending Survey, in 2022 Q3 banks tightened the conditions of access to loans, and almost all institutions saw a decline in credit demand. Looking ahead to the next six months (2022 Q4 and 2023 Q1), tightening may continue by raising the spreads, and in addition to this, the vast majority of banks anticipate a further decline in credit demand.

Chart 39
Newly contracted household loans and share of subsidised loans in the credit institution sector



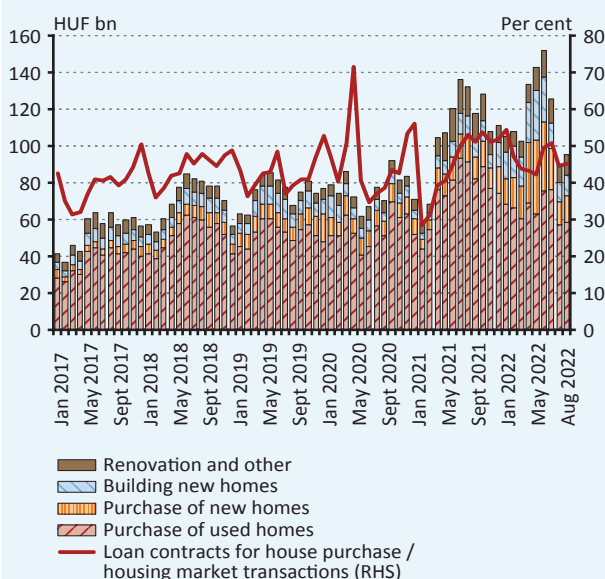
Note: Other consumer loans include home equity loans, vehicle loans, other consumer loans and hire purchase loans as well as personal loans.

Source: MNB

4.1 THE RECORD HIGH DISBURSEMENT OF HOUSING LOANS IN THE SECOND QUARTER WAS FOLLOWED BY A DECLINE

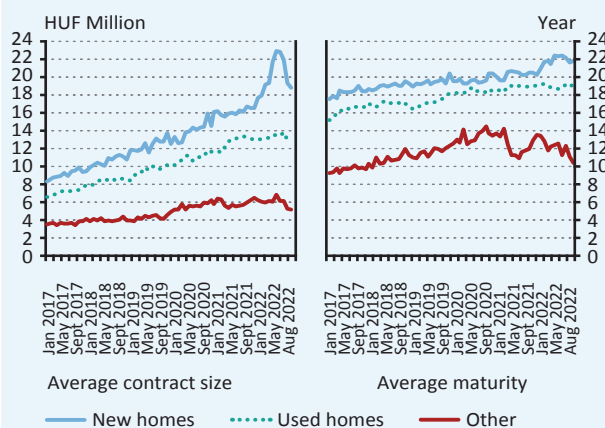
Loan disbursements fell in August in all product types. In 2022 Q2, credit institutions concluded loan contracts worth HUF 786 billion with households, more than half of which were housing loans. Disbursements of housing loans in the second quarter in the amount of HUF 427 billion was a record high volume, outstripping the level registered in the same quarter of 2021 by roughly 17 per cent (Chart 39). FGS GHP, which accounted for one third of housing loans, was a significant contributor to this. However, after the second quarter, the monthly disbursement of housing loans already fell below HUF 100 billion, and in August it declined by 19 per cent both in terms of volume and number of transactions on an annual basis. The correction was attributable to the lower number of new contracts concluded under the FGS GHP, the fall in demand followed by demand brought forward to previous months due to the rising interest environment and the drop in housing market activity. August disbursements of prenatal baby support loans, which are often used for housing purposes, amounted to HUF 36 billion and thus fell short of the

Chart 40
Disbursement of housing loans by loan purpose and share of home purchase on credit



Source: MNB

Chart 41
Average contract size and maturity of new housing loans



Note: Maturities are averages weighted by contract amount.

Source: MNB

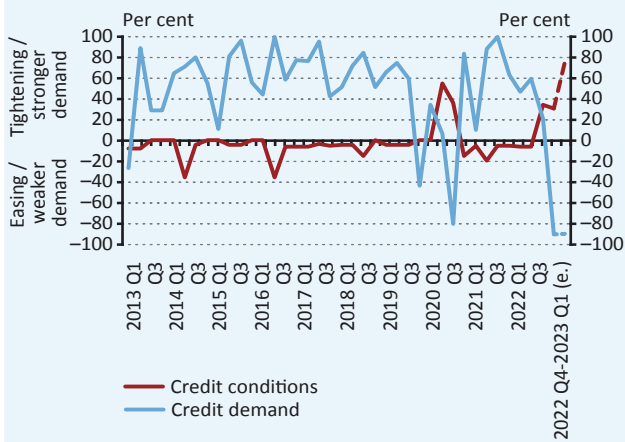
volume registered one year ago by 16 per cent. At the end of August, this product accounted for 19 per cent of the entire outstanding household loans, at HUF 1,807 billion. The ratio of state-subsidised loans fell to nearly 30 per cent, from roughly 50 per cent observed early this year, and thus returned to the level registered before the start of FGS GHP.

In an annual comparison, only disbursements of loans for newly-built homes rose. In August 2022, more than one half (roughly 61 per cent) of housing loan applications were for the purchase of used homes, down 29 per cent compared to the volume from last August (Chart 40). The volume of housing loans for home improvement and modernisation applied for during the month fell short of the year-on-year level by 26 per cent. Up to August 2022, for the pre-financing of the home improvement subsidy, banks concluded contracts for subsidised mortgage loans in a total amount of HUF 71 billion. Within the loan purposes, loans for the construction or purchase of new housing rose in August in an annual comparison, advancing by 25 and 18 per cent, respectively, but this fell substantially short of the record high disbursements at the beginning of the second quarter as a result of FGS GHP. 31 per cent – i.e. about HUF 8 billion – of the volume contracted for new housing purpose related to FGS GHP during the month. In the last month of the summer, the number of housing market transactions fell short of the figure registered last August by 12.9 per cent, accompanied by an even larger decline in loan applications. As a result of this, according to our estimates, the ratio of house purchases on credit stood at 45 per cent in August, after an annual decline of 6 percentage points.

A correction after the phase-out of FGS GHP can be observed both in the average loan amounts and maturities. In August 2022, credit institutions concluded 7,980 housing loan contracts with households, down 14 per cent on the level registered at the end of the second quarter, while in annual terms this represents a decline of 19 per cent. In addition, in parallel with the declining weight of GHP, both the average contracted amount⁴ and the maturity of housing loans declined for all loan purposes: for new housing and for the purchase of used homes, the average loan amount was HUF 19 million and HUF 13 million, respectively, during the month, representing a drop of HUF 3.2 million in the case of the former and HUF 1 million in the case of the latter, compared to June (Chart 41). In August, following a moderate decline, the average maturity weighted by the contracted amount

⁴ For the loan amount, the average is by contract rather than by borrower.

Chart 42
Changes in credit conditions and demand for housing loans



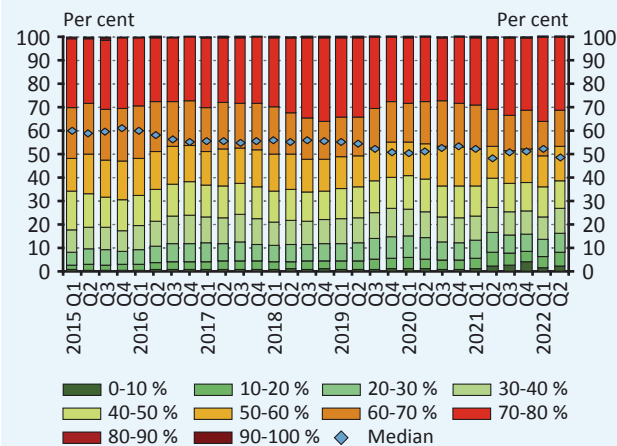
Note: Net ratio of the difference between tightening and easing and banks indicating stronger and weaker demand weighted by market share.

Source: MNB, based on banks' responses

was 21.9 and 19.2 years, respectively, while the average maturity of home improvement loans fell to 10.4 years.

In the third quarter, almost all banks perceived a fall in demand for housing loans. According to the responses in the Lending Survey, a net 32 per cent of banks tightened the standards of housing loans in 2022 Q3, due to worsening economic prospects and deterioration in customers' creditworthiness. This tightening involved the stricter internal application of the debt cap rules. On the other hand, in the rising interest environment, 53 per cent of the respondents reported a further decline in spreads, which may be attributable to the delayed pass-through of rising funding costs into bank interest rates. Looking ahead to the next half-year, 75 per cent of the respondent institutions anticipated further tightening of lending conditions by raising the spreads (Chart 42). The fall in demand for housing loans in the third quarter was perceived by almost all respondent banks, and looking ahead, a similarly high ratio of them, 91 per cent in net terms, anticipate a further decline in demand.

Chart 43
Distribution of new housing loan disbursement by LTV



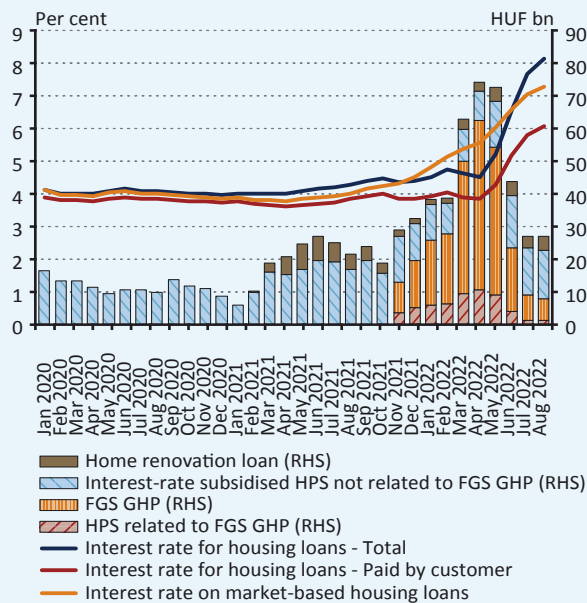
Note: Volume-based distribution.

Source: MNB

In the second quarter, the median loan-to-value ratio of new loans declined. Despite the persistent rise in house prices in recent years, the median LTV ratio of newly disbursed mortgage loans has not increased since 2015. In the case of housing loans contracted in 2022 Q2, the median loan-to-value ratio was 48 per cent, representing a quarter-on-quarter decline of 4 percentage points (Chart 43). The ratio of housing loans taken out with an LTV of 70–80 per cent declined to the largest degree, falling by roughly 5 per cent to 31 per cent, while the ratio of house purchases with at least 50-per cent equity rose to 39 per cent, following a 3-percentage point quarterly increase. Although under the FGS GHP, which accounted for one third of loan disbursements in the second quarter, high loan amounts could be applied for, banks participating in the survey reported⁵ that customers with good ratings typically participated in the programme.

⁵ For detailed information on the results of the interviews conducted with senior loan officers see Box 1 of the publication entitled Trends in Lending September 2022: <https://www.mnb.hu/letoltes/hitelezesi-folyamatok-2022-szeptember-hu.pdf>

Chart 44
Transaction and customer interest rates on newly disbursed housing loans and the volume of housing loans with subsidised interest rate

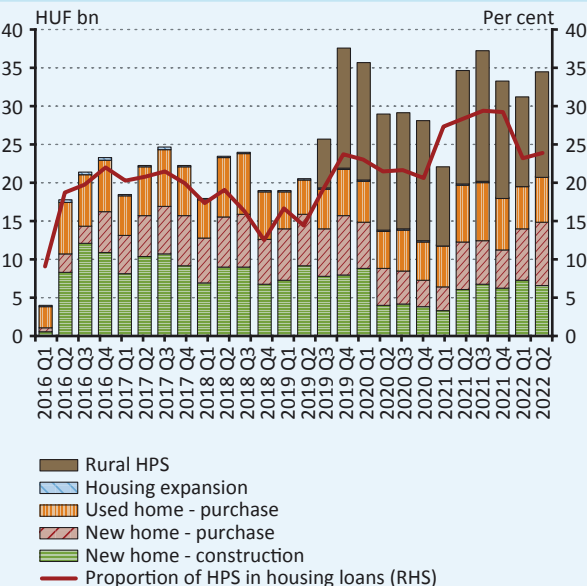


Note: Average interest rate weighed by contractual amount. FGS GHP refers to the FGS Green Home Programme. Transaction and customer interest rates include all types of housing loans.

Source: MNB

As a result of subsidised loans, the gap between the transaction interest rate and the interest rate paid by customers on housing loans continued to widen. The interest rates reported in the interest rate statistics published by the MNB also include the state subsidy, i.e. the part of the interest rate that is paid to the bank by the budget rather than by the borrower. For example, in the case of the interest-subsidised HPS loans available from 2016 and the subsidised home improvement loan introduced from February 2021, the interest rate paid by the customer is 3 per cent, but the transaction interest rate including the subsidy is significantly higher and is usually around the maximum statutory limit. The FGS Green Home Programme loans available from October 2021 are mostly contracted at a 2.5-per cent transaction rate, while the HPS loans associated with the programme are available at a 0-per cent customer interest rate. The significant role of subsidised loans in disbursements resulted in further widening of the gap between transaction rates and customer interest rates: Between December 2021 and August 2022, the transaction interest rate on housing loans rose by 3.7 per cent to 8.2 per cent, while the average customer interest rate increased by merely 2.2 per cent to 6.1 per cent (Chart 44). In the case of newly contracted, market-based housing loan schemes without interest subsidy, the average interest rate rose by 2.8 per cent in 2022, and amounted to 7.3 per cent in August.

Chart 45
Volume of HPS-contracts by purpose



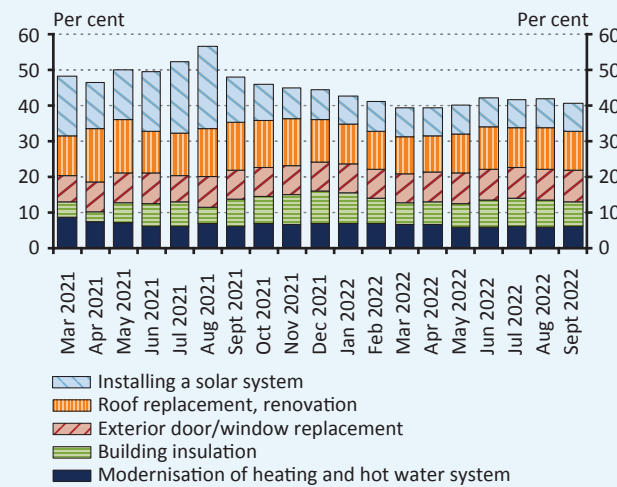
Note: The columns show the non-refundable HPS subsidies, while the line shows the proportion of subsidised and market loans within the housing loan disbursement that were used in addition to the HPS subsidy.

Source: MNB, Ministry of Finance

The ratio of HPS requested for the construction and purchase of new housing increased. A number of housing subsidies are still available⁶ for households, and a significant portion of these are connected to the Home Purchase Subsidy for Families. The volume of HPS applied for in 2022 Q2 amounted to HUF 21 billion, in almost 8,000 subsidy contracts. 71 per cent of the subsidies was requested for the construction or purchase of new housing. The volume of contracts for this loan purpose exceeds the year-on-year figure by 20 per cent. This is partly attributable to HPS, available with FGS GHP. Almost HUF 6 billion was disbursed for the purchase of used homes, representing a year-on-year fall of 20 per cent (Chart 45). 24 per cent of the housing loans disbursed in the second quarter, around HUF 101 billion, were linked to Home Purchase Subsidy for Families, also including rural HPS, 38 per cent of which was a HPS-related market-based loan. Rural HPS, available in preferred small settlements, accounted for 40 per cent of the quarterly HPS, in the amount of roughly HUF 14 billion.

⁶ Reducing the VAT rate on new home to 5 per cent, VAT and duty exemption of new properties purchased under HPS, multi-generation HPS, Home improvement subsidy, Subsidised housing loan for home improvement.

Chart 46
Utilisation rate of home renovation subsidy by energy purposes

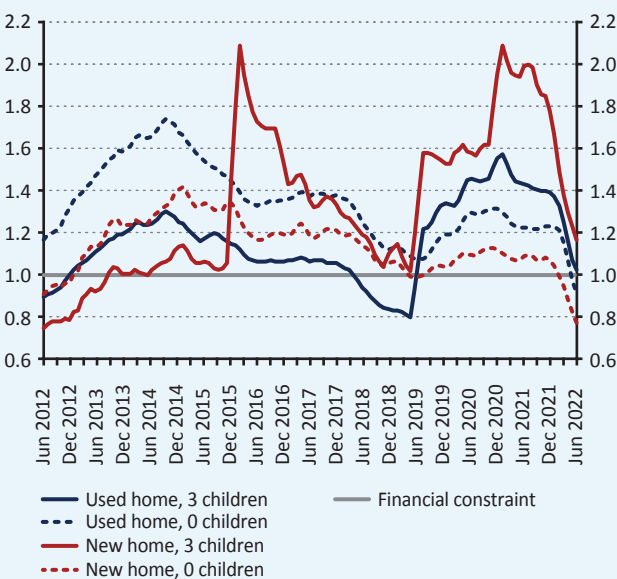


Source: Hungarian State Treasury

A stable 40 per cent of the home improvement subsidy is requested for energy-efficiency developments.

Invoices received and approved by the Hungarian State Treasury at the end of 2022 Q3 within the framework of the home improvement subsidy amounted to HUF 76 billion (connected to the renovation of roughly 190,000 residential properties in total), 41 per cent of which was used for energy-efficiency modernisation of the properties (Chart 46). Within this, the largest ratio of applications concerned the replacement or renovation of roofs, often preceded by the installation of a solar system. 8 per cent of the subsidies was spent on this purpose. Façade insulation and replacement of external windows to reduce the heat transmission coefficient (U-value) of buildings are also popular renovation purposes, accounting for between 7 and 9 per cent of public subsidy on average, while modernisation of heating and hot water systems accounted for 6 per cent of applications.

Chart 47
Housing Affordability Index (HAI) in Budapest

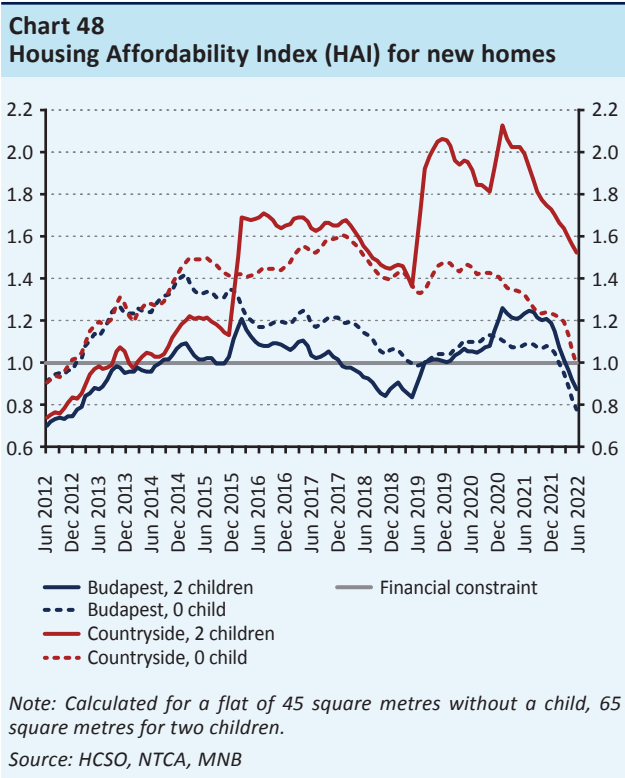


Note: The HAI shows the number of times the income of a household with two average earners covers the income required for the financed purchase of an average home. If the value of the indicator is over 1, the family is able to buy a home on credit without overstressing its liquidity. However, if it is below 1, the purchase represents excessive risk and financial burden. Calculated for a flat of 45 square metres without a child, 75 square metres for three children. Parameters of the loan product, except for the interest rate, are constant. LTV = 70 per cent, PTI = 30 per cent, maturity = 15 years. Net wages used in the calculation of the indicator are seasonally adjusted.

Source: HCSO, NTCA, MNB

The rising interest rate environment along with the high house prices are expected to cool the housing market and credit market demand significantly.

The affordability of house purchase on credit significantly deteriorated in 2022 H1 (Chart 47), which was attributable to the continued dynamic rise in house prices, in excess of average wages, and the higher interest rates on loans. As the prices of new homes rose to a larger degree than of used homes, this year the affordability of the former deteriorated to larger degree, and for households not eligible for housing and family subsidies it fell to a level unseen since 2012 in the new home market of Budapest.



Properties in the countryside are still significantly more affordable than in the capital. The price rise and the continuous increase in interest rates also affects the affordability of properties in the countryside; however, affordability for those eligible for housing and family subsidies can still be deemed favourable in a historical comparison and also compared to properties in the capital (Chart 48). This is well illustrated by the fact that in August 2022 a family with two children in the capital had to have almost twice as much income – including the drawdown of available subsidies – compared to families in the countryside in order to buy a new home on credit. A significant deterioration in housing affordability entails a decline in credit and housing market demand, which may strengthen further in the coming months, as interest rate increases feed through into interest rates on housing loans with a delay of several months.

Count István Széchenyi

(21 September 1791 – 8 April 1860)

Politician, writer, economist, minister for transport in the Batthyány government whom Lajos Kossuth referred to as ‘the greatest Hungarian’. His father, Count Ferenc Széchenyi established the Hungarian National Museum and Library; his mother, Julianna Festetich was the daughter of Count György Festetich, the founder of Georgikon, an institution for the teaching of agricultural sciences.

With his ideas – whose message remains relevant even today – and his activities both as a writer and a politician, István Széchenyi laid the foundation for modern Hungary. He is one of the most eminent and significant figures in Hungarian politics whose name is associated with reforms in the Hungarian economy, transportation and sports. He is also known as the founder and eponym of numerous public benefit institutions, a traveller all across Europe and an explorer of England as well as the champion of economic and political development at the time. István Széchenyi recognised that Hungary needed reforms in order to rise, and considered paving the way for a Hungary set on the path of industrialisation and embourgeoisement to be his calling in life.

Published in 1830, his *Credit* outlined the embourgeoisement of Hungary and summarised its economic and social programme. Count Széchenyi intended this writing to make the nobility aware of the importance of the country’s desperate need for a social and economic transformation. Another work of his, *Stádium* [Stage of Development] (1833) listed the cornerstones of his reform programme in 12 points, including the voluntary and compulsory liberation of serfs; the abrogation of *avicitas* (inalienable status of noble property); the right of possession for the peasantry; and the freedom of industry and commerce. This work of Széchenyi already conveyed the idea of equality before the law and the general and proportionate sharing of taxation.

After the revolution in 1848 István Széchenyi joined the Batthyány government and as minister embarked vigorously on implementing his transportation programme.

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H-1013 BUDAPEST, KRISZTINA KÖRÚT 55.