



HOUSING MARKET REPORT



NOVEMBER
2017

*‘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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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 also fundamentally determine the short and long-term prospects for economic activity. Overall, it can be stated that the housing market is intrinsically linked to all areas of the national economy. Housing market developments, in particular the volatility of housing prices, influence the savings and consumption decisions of the household sector through their financial position, and also influence the portfolio, profitability and lending activity of financial institutions through the stock of mortgage loan collateral.

The publication ‘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 which influence housing market supply and demand. With this publication, the Magyar Nemzeti Bank will regularly present the relevant developments on the Hungarian housing market on a semi-annual basis.

The real estate 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 aspects. The development of real estate market supply directly influences economic growth, while oversupply and inadequate supply can also have serious financial stability consequences. Housing price appreciation improves the financial position 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 reasons 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 central banks’ publications, both in Hungary and at the international level, but typically from the point of view of the main topic of the respective publication. Consequently, the ‘Housing Market Report’ represents a unique central bank publication at the international level as well, due to its integrated presentation of the macroeconomic and financial stability aspects of the real estate market. The set of 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, developments in real income and unemployment, and changes in the yield environment.*
- *The analysis of current housing market processes relies primarily on the information provided by the Hungarian Central Statistical Office. Information on changes in housing market turnover and housing prices can be split 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 analysis of the housing mortgage loan market relies primarily on the balance sheet data of credit institutions and the interest statistics collected by the MNB; information on the qualitative features of lending processes 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

Domestic house prices continued to rise in the first half of 2017, in an environment characterised by strong market demand and gradually adjusting supply. According to the MNB's house price index, house prices increased at an annual nominal rate of just over 15 per cent, similar to what was seen in 2016. In real terms, house prices rose by 12.8 per cent per annum in the period under review, and this increase may continue in 2017 according to our short-horizon forecast, albeit somewhat more slowly, at a rate of 11 per cent annually. According to our estimation, despite the continuous rise, on a national average the level of house prices remains below the level justified by the macroeconomic fundamentals. House prices in Budapest have already reached the level considered as equilibrium, and thus – despite the fact that there is still no significant overvaluation – it is essential to closely monitor the market in the capital.

The Hungarian housing market shows a heterogeneous picture both in geographical terms and based on the size of settlements. After the turnaround on the housing market in 2014, the strongest growth was experienced in Budapest, both in terms of market turnover and house prices, but starting from 2017 different trends have been observed. Annual growth in house prices is gradually tapering off in the capital. The annual price increase of 14.6 per cent recorded in the first half of 2017 is already substantially lower than the roughly 27 per cent increase seen one year ago. Moreover, due to the higher prices, the number of housing market transactions also declined in Budapest. On the other hand, growth in house prices accelerated in the municipalities, accompanied by a rise in market turnover.

During the first half of 2017, the factors determining the demand side of the housing market continued to improve. Households' real income has been growing at stable rates of 3-4 per cent in recent years, and at the same time the employment ratio also risen to historically high levels. Consequently, the favourable income and labour market situation of the household sector points to a continued recovery of the market, and the intense wage outflow has also substantially boosted the savings of the sector.

The favourable demand conditions are also being felt in lending for housing purposes. During the first half of 2017, in parallel with the steady rise in the volume of new housing loans, the role of mortgage lending among housing market transactions also increased. The volume of new housing loans rose by 34 per cent in annual terms, while the number of loans taken for the purpose of house purchase, as a ratio of market transactions, continued to increase, rising to somewhat over 40 per cent. The ratio of loans taken for the purpose of building or purchasing newly constructed houses is steadily increasing within new contracts. On the whole, the level of lending for housing purposes as a proportion of GDP is low in Hungary both in European and regional terms, and hence there is still plenty of room for growth in lending. According to banks' responses to the Lending Survey, the standards of housing loans have not changed significantly. The average interest rate spread on housing loans decreased somewhat both for variable and fixed rate products, but the spread on the latter still exceeds the spread on variable rate products, and – on the whole – the level of interest rate spreads is higher than the regional average.

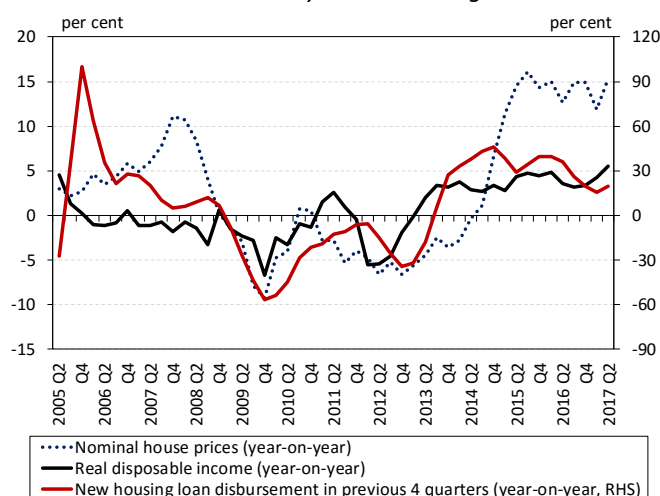
The supply side of the housing market is characterised by gradual adjustment. Following the sharp rise in the number of construction permits issued in 2016 at the national level, compared to the previous year the number of newly built homes increased by about 42 per cent during the half year under review. Based on the anticipated completion date of new home projects presently under construction in the capital, the number of completions may increase substantially at the end of 2018. In 2017 a total of 3,200 new homes are expected to be completed and delivered in Budapest, whereas by 2018 this number may be as high as 7,700. However, the planned completion date was postponed in 41 per cent of the projects; on average, new dwellings under construction are being completed just over six months later than scheduled. On the supply side of the housing market, the labour shortage perceived by companies in the construction sector still poses difficulties, while the increase in the probable time to sell new dwellings may indicate a modest deterioration in the developers' bargaining position. For the time being, the growth rate of house prices exceeds that of construction costs, which is favourable for developers. However, the potential acceleration of costs may undermine this source of stimulus in the future.

On the whole, the Hungarian housing market is characterised by a strong demand environment and a gradual adjustment in supply. Despite the dynamic growth observed in recent years, house prices remain below the level justified by the macroeconomic fundamentals. However, the regional discrepancies in the housing market and the strengthening role of lending underline the need for the close monitoring of the market.

2. MACROECONOMIC ENVIRONMENT

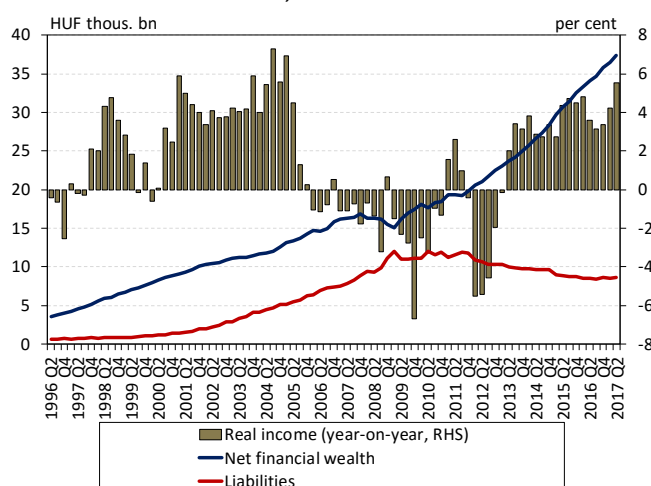
Factors influencing the demand side of the housing market kept improving in the first half of 2017, and thus the market has continued to recover, in conjunction with the favourable income and labour market position of households, as well as the growth in the volume of new lending. The improving financial position of the household sector and the intense wage outflow also substantially boosted the savings of the sector, which – along with the improving long-term income prospects – paints a more favourable picture of the prospective demand conditions in the housing market. The supply side of the housing market has also improved, although it is adjusting more slowly compared to the previous real estate market cycle. House prices are already growing faster than home construction costs, and this currently has a positive impact on the willingness to develop property; however, a faster rise in construction costs and a falling growth rate in house prices may mitigate this stimulus in the future.

Chart 1: Annual growth rates of house prices, disposable income and newly issued housing loans



Source: MNB

Chart 2: Changes in households' financial assets and liabilities, and real income



Source: HCSO, MNB

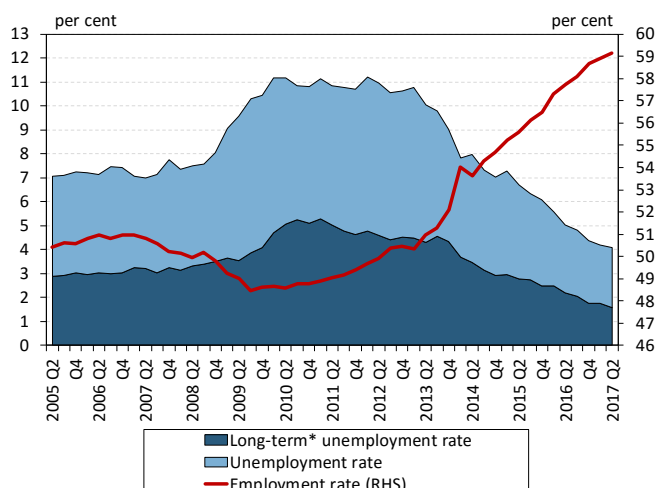
2.1. Hungarian housing market demand

Housing market trends are strongly correlated and move closely with the income position of households and the current situation on the credit market. This can be attributed to the fact that – in addition to income – housing affordability often depends on loan conditions, due to the need for external financing. In the first half of 2017, conditions on the housing market continued to pick up. Housing prices kept rising and in parallel with this the disposable income of households, as well as the volume of new loans granted for housing also increased (Chart 1).

Several demand factors are supporting the upturn on the housing market. The turnaround on the housing market in 2014 occurred in parallel with the start of a gradual improvement in the factors that fundamentally determine demand in the housing market. Substantial growth in employment led to rising income, and in parallel with this financing conditions were eased. Housing market demand is influenced quite strongly by households' income position. Since 2013, the income of this sector has shown a continuous, stable 3-4 per cent increase on an annual basis in real terms (Chart 2).

In addition to households' income, the net financial assets of the sector are also exhibiting continuous growth. The increase in households' disposable income and their improving financial position in the past period stoked housing demand, which was initially reflected in a rise in the number of housing market transactions, and in line with this, an increase in prices. Due to the slower adjustment of the supply side, the recovery in the housing market primarily affected used homes; however, 2017 is already characterised by a gradual pick-up in construction, and hence the market of new dwellings is becoming increasingly important. This year, in addition to the lower tax burden, moderate inflation and improving employment ratios, the intense wage outflow – developing as a result of the substantial rise in the minimum wage and the guaranteed wage minimum and passing through to the higher wage brackets – also contributed to the

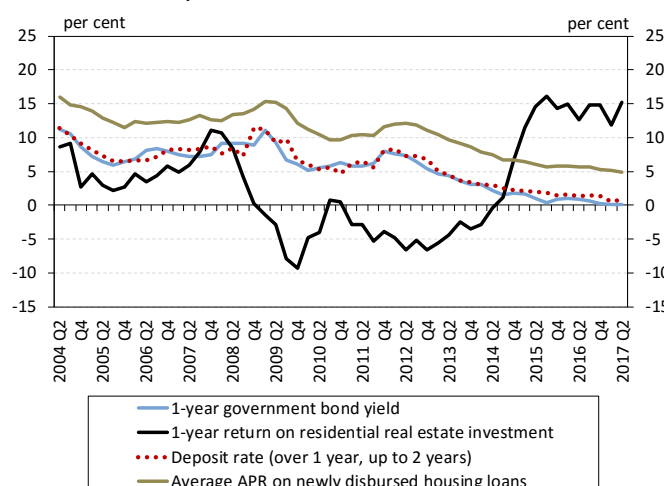
Chart 3: Short-term and long-term unemployment



Note: * Unemployed for more than 1 year.

Source: HCSO

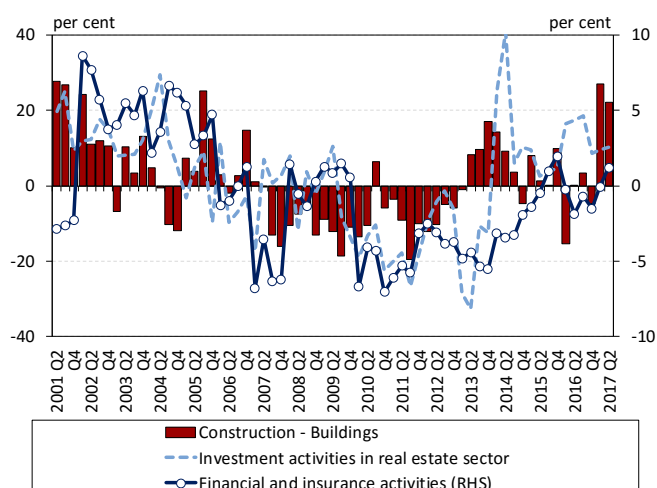
Chart 4: Retrospective return realisable on home purchase and yields on alternative investments



Note: The yield realisable on home investment is calculated exclusively based on the growth rate of the MNB house price index.

Source: Government Debt Management Agency, MNB

Chart 5: Output of the Hungarian real estate sector and related industries



Source: HCSO, MNB

rise in real incomes. Housing market trends are also strongly determined by labour market prospects. Accordingly, the gradual increase in private sector labour demand and the related decline in permanent unemployment improve households' willingness to invest, through the longer-term income prospects (Chart 3). With rising employment and increasing real incomes, consumption growth was moderate, which is attributable to households' savings. Looking ahead, the intense wage outflow and the rise in savings for housing purposes may serve as a basis for the further expansion of the Hungarian housing market.

The low interest rate environment and dynamic increase in house prices make residential properties an attractive investment. During the years when the housing market turned around, a significant upswing was observed in the market of used homes: the number of transactions soared and the price of used homes rose by almost 25 per cent in two years. The dynamic growth in house prices has continued, offering a high, rapidly realisable return in the low interest rate environment (Chart 4). This high return resulted in further strengthening of the used home market. The start of the adjustment on the supply side permits this type of investment demand to appear not only in market of used homes, but also in the market of new dwellings, while the persistently low interest rate environment may channel additional investors into the property market.

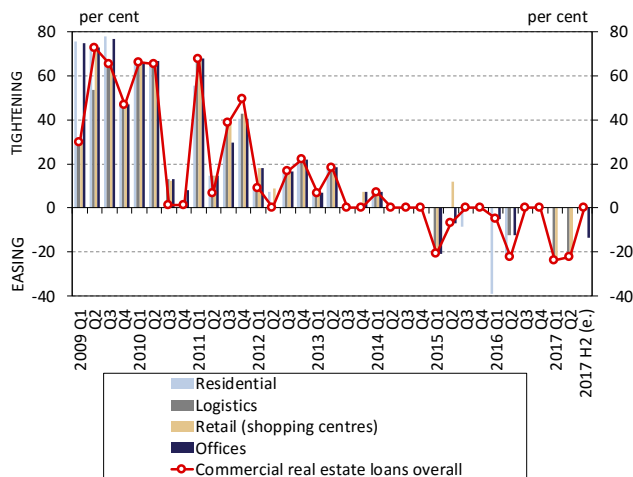
2.2. Hungarian housing market supply

The supply side of the housing market is primarily influenced by the quantity and quality of the existing stock of dwellings and by the situation and performance of the construction industry (Chart 5). The cost of construction and the real estate sector's financing situation are also key determinants.

On the supply side, several factors support the upswing, but supply conditions typically respond with a delay in the real estate market. The upturn in the demand side of the housing market and – in parallel with this – the increase in the price level, also entailed a gradual adjustment in supply, indicating a more mature phase of the housing market cycle. Numerous real estate development projects were launched last year, and the number of completed multi-apartment residential buildings is expected to gradually increase this year, followed by a considerable rise in 2018. However, supply-side obstacles to the housing market recovery still remain.

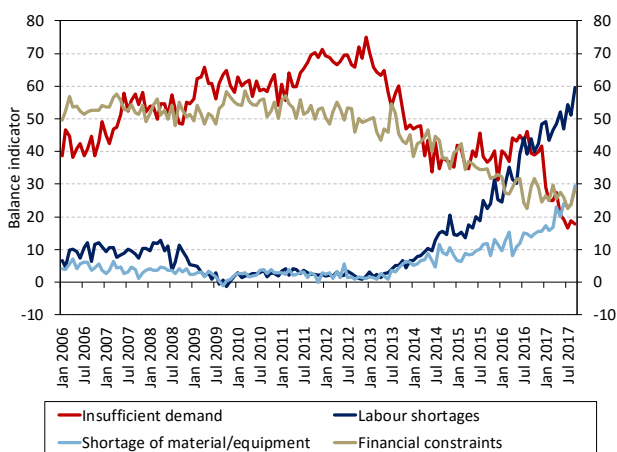
The adjustment of supply slowed in the current real estate market cycle. Despite the favourable economic environment, the pace of recovery in housing construction is slower compared to previous episodes, reflecting the slower adjustment of supply in the current housing market cycle.

Chart 6: Credit conditions in the commercial real estate segment



Note: Positive values represent the tightening of conditions, while negative values show the easing of conditions. Source: MNB, Lending survey

Chart 7: Constraints to production in the Hungarian construction industry



Source: European Commission

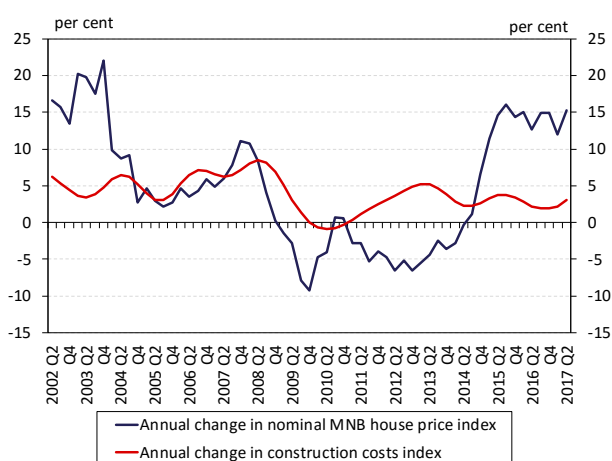
While a stable, strong rise was observed in the number of residential construction permits since 2014, the number of home starts only began to increase substantially last year. Based on previous experience – empirical research carried out on the previous real estate market cycle – the change in the number of residential construction permits was only followed by a pick-up in housing starts after 5-7 quarters, which slowed to 8-9 quarters in the current cycle.³

Banks have not changed financing conditions for residential real estate projects. In net terms, 22-24 per cent of the respondent banks – a higher ratio than forecast in the previous half-year – eased the conditions of loans disbursed to finance commercial real estate (Chart 6). Based on the Lending Survey, in particular banks eased lending standards for logistics and shopping centres, and left lending standards for residential projects unchanged. No further significant easing is expected in the second half of the year: 14 per cent of the banks, in net terms, indicated that they planned easing only in the case of office buildings. The crisis brought significant tightening in this loan segment – particularly in the case of housing projects – and thus banks still have plenty of room to ease these supply conditions.

The pace of the upswing on the housing market is also strongly influenced by the availability of skilled labour. Along with favourable demand and improving financing conditions, an increasingly typical feature of the construction industry in recent years has been that the shortage of labour and basic materials are the main factors hindering production. In terms of these factors, labour shortage as a factor hindering production was most pronounced in the responses of the construction companies polled by the European Commission (Chart 7). The projected pace of expansion on the housing market may be hindered to a great degree by this constraint.

³ For more details, see Magyar Nemzeti Bank: Housing Market Report, October 2016, Box 3. (<https://www.mnb.hu/letoltes/lakaspiaci-jelentes-2016-okt-en.pdf>)

Chart 8: Construction costs and house prices



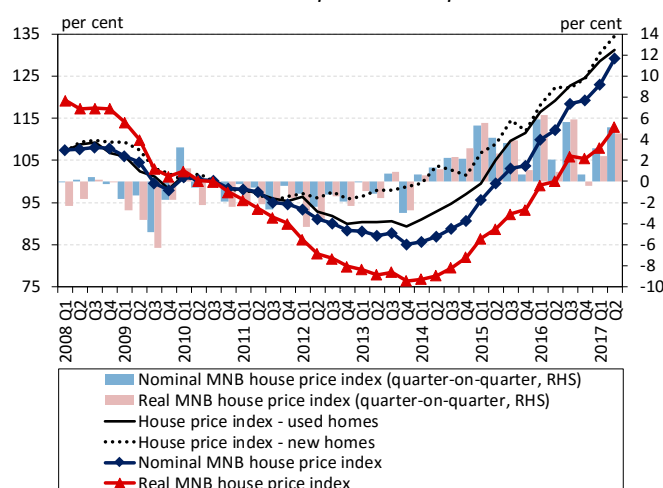
Source: HCSO, MNB

In the past quarters, housing price appreciation exceeded the increase in construction costs, creating favourable conditions for real estate developers and for supply. Since the turnaround in the housing market, annual house price appreciation has exceeded the rise in construction costs, which helps the supply side to adjust. In the first half of 2017, the gap between the construction cost index and the housing price index widened further, reflecting the continued improvement in the profitability of home developers (Chart 8). Looking ahead, the strong wage growth, the scarcity of labour and rising construction material prices may reduce the profitability of developers, which could be further exacerbated by the fact that –according to our forecast – supply-side adjustment may lead to slower house price appreciation.

3. CURRENT HOUSING MARKET TRENDS

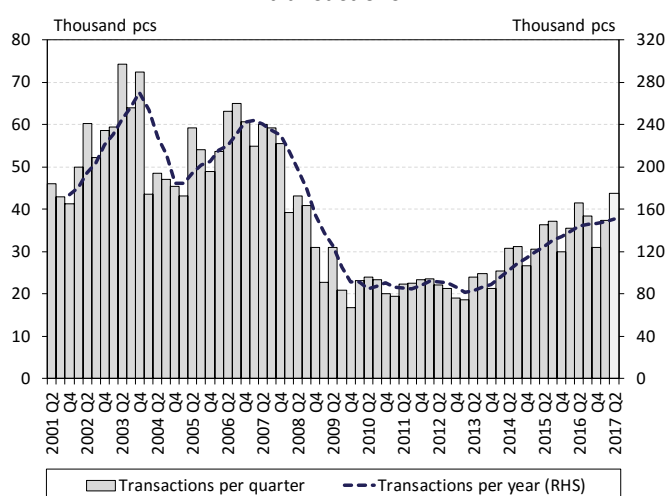
The Hungarian housing market was characterised by a continued rise in housing prices and a moderate increase in the number of transactions in the first half of 2017. The MNB's aggregated housing price index still shows an increase of roughly 15 per cent in annual terms, but during the first six months house prices rose more dynamically in smaller settlements. The dynamic price increase observed in Budapest in the last three years continued in 2017, albeit at a gradually decelerating rate. Nevertheless, the average square meter price of used homes in Budapest is still twice as high as outside the capital. According to our estimates, on a national average domestic housing prices remain below the level justified by economic fundamentals, while prices in Budapest have already reached a justified level. Market turnover trends show heterogeneity in geographic terms as well. The number of sales fell in Budapest, but started to rise in rural settlements, which may be driven to a great degree by the higher level of house prices, in addition to the stronger price appreciation previously observed in the capital. In the first half of 2017, both the number of construction permits issued and newly constructed homes rose further in year-on-year terms. A substantial portion of home construction projects in Budapest should be completed by end-2018. In the capital, 41 per cent of housing projects are behind schedule, although the average length of the delay is just over six months.

Chart 9: House price developments



Source: MNB, HCSO

Chart 10: Quarterly and annual number of housing market transactions



Note: 2017 Q2 estimate based on preliminary HCSO figures.

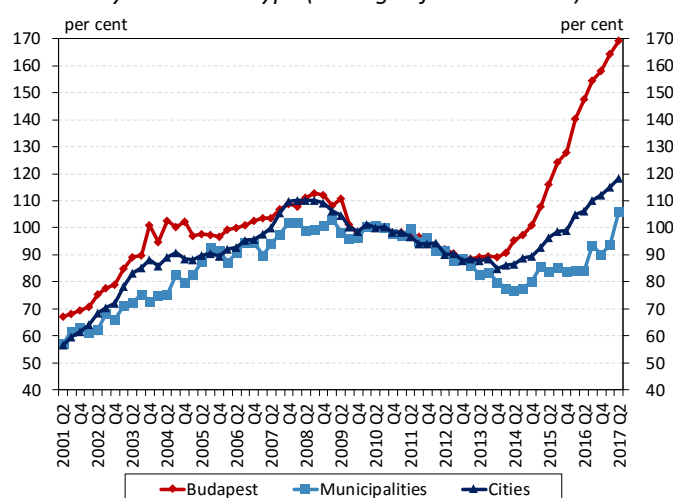
Source: HCSO, MNB

3.1. Domestic housing market developments

Hungarian housing prices continue to rise. The MNB's aggregated nominal housing price index rose by 3.1 per cent and 5.1 per cent in the first and second quarter, respectively (Chart 9). The annual nominal growth rate of Hungarian house prices thus slightly exceeded the end-2016 value, standing at 15.3 per cent at the end of the half-year. In real terms, house prices rose by 2.4 per cent and 4.5 per cent in the first and second quarter, respectively, on a national average, which on the whole corresponds to an annual percentage growth rate of 12.8 per cent. Additionally, according to the HCSO's estimates, prices of both new and used homes increased during the half-year. In the period under review, the rise in used home prices practically corresponded to that of new homes: at the end of 2017 H1 the price of both used and new homes rose by 10 per cent in annual terms.

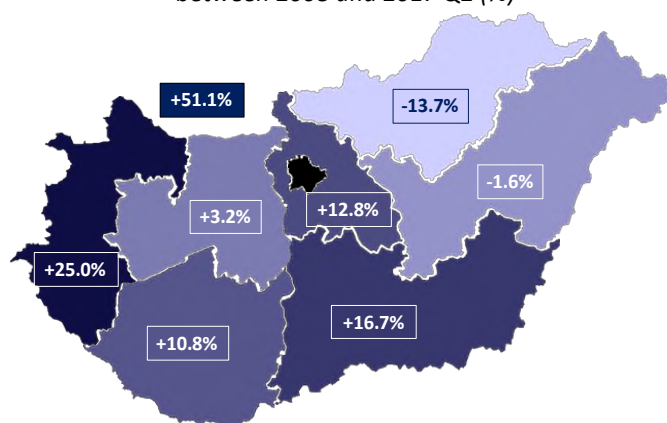
The number of housing market transactions increased slightly. Based on preliminary data, in the first half of 2017, about 81,000 sales contracts were concluded in the domestic housing market, exceeding the figure for 2016 H1 by 5 per cent (Chart 10). Some 150,000 transactions were concluded in one year, which slightly exceeds the annual turnover of 146,000 contracts registered at the end of 2016. Market turnover, which has been continuously increasing since the turnaround seen in the housing market from the beginning of 2014, thus continued to rise further, albeit at a slower rate, which may be mostly attributable to the substantial increase in house prices. Over the long run – between 2001 and 2017 – annual average market turnover amounted to roughly 157,000 transactions, and thus the present level is below the long-term average. Within market turnover, in the first half of 2017 the share of new home sales rose compared to 2016, but these sales still account for a very small ratio of roughly 4 per cent. Looking

Chart 11: MNB nominal housing price index by settlement type (average of 2010 = 100%)



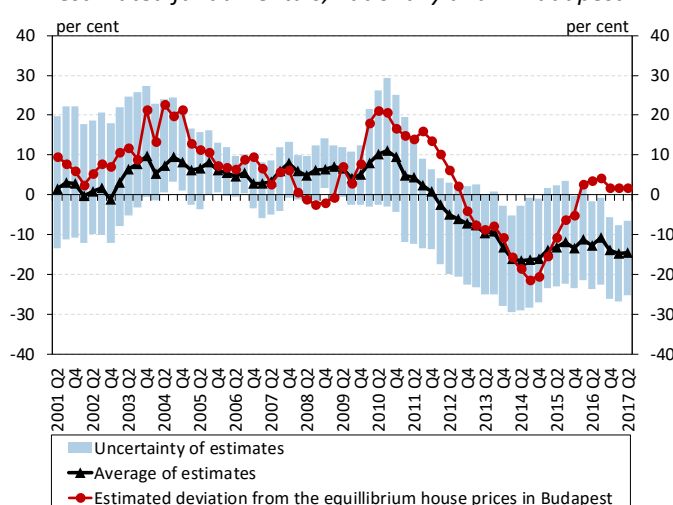
Source: MNB

Chart 12: Development of city house prices by region between 2008 and 2017 Q2 (%)



Source: MNB

Chart 13: Deviation of house prices from the level justified by estimated fundamentals, nationally and in Budapest



Source: MNB

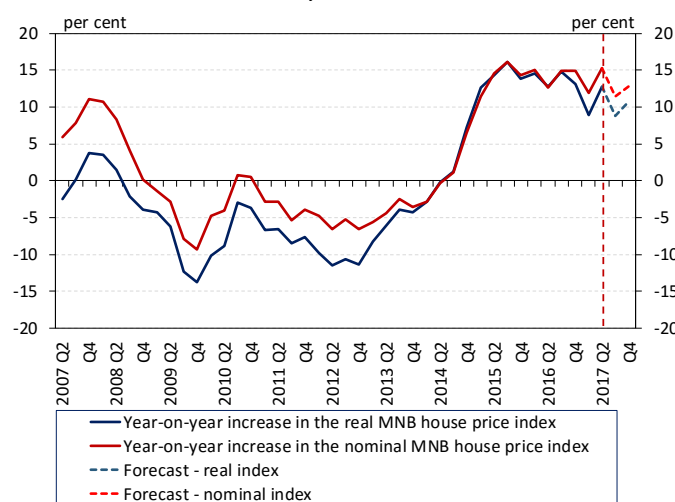
ahead, however, this ratio may improve moderately with the gradual completion of new homes under construction.

The level of house prices in Budapest substantially diverged from the price level observed in the rest of the country. It should be noted, however, that the rate of price appreciation in Budapest is decelerating. Over the last three years, the annual nominal growth rate of house prices in Budapest was 21 per cent on average. By contrast, at the national level house prices rose on average by 12.4 per cent during the same period. However, in a breakdown by settlement types, house price trends seem to be turning around. The annual rate of house price appreciation in Budapest shows a gradual deceleration from 2016, which continued in 2017 as well. In the first and second quarter of 2017, the annual growth rate of house prices in Budapest was 17.3 and 14.6 per cent, respectively. In addition to the foregoing, according to the MNB house price index, house prices in smaller settlements grew faster in 2017 (Chart 11). In villages, the average annual increase in house prices advanced to 26 per cent compared to the rate of less than 10 per cent observed in previous periods. In towns, average house price appreciation of 11 per cent can be observed, and this rate has not changed substantially compared to previous periods.

There is also considerable heterogeneity in house price developments at the regional level. At a regional level, from 2008 domestic housing price trends were characterised by very different processes: while house prices in Budapest already exceed the level recorded at end of 2008 by 51 per cent, in certain regions of Hungary they still have not reached that level even after rising for several years. According to the 2017 Q2 data, compared to the pre-crisis (2008) level, house prices are at the lowest level in North Hungary (where they fall short by almost 14 per cent), but house prices in the north of the Great Plain also fail to reach the 2008 level. By contrast, if one disregards the capital, house prices in cities rose to the largest degree in West Hungary after the crisis, and thus as a result of the growth observed in recent years, prices already exceed the 2008 level by 25 per cent (Chart 12). Looking at 2017 alone, house prices rose the fastest in towns in the South Transdanubian and the South Great Plain regions: at the end of 2017 Q2 the annual growth rate of house prices in these regions was 20 and 18 per cent, respectively.

On a national average, house prices remain below the level justified by the fundamentals. According to our estimates, the level of domestic housing prices is still below the level justified by the economic fundamentals determining the housing market (e.g. income and labour market position of households, volume and quality of the stock of dwellings) (Chart 13). However, as a result of the substantial rise in the

Chart 14: Short-term forecast for annual house price dynamics



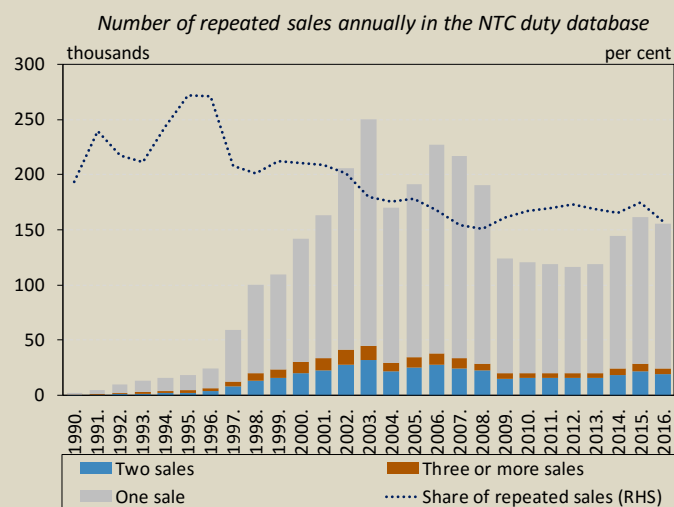
Source: MNB

level of house prices observed in recent years, housing prices in Budapest have already reached and even slightly exceeded the level justified by fundamentals. Nevertheless, one positive factor is that during the first half of 2017 this moderate overvaluation did not continue to grow. Although the rise in house prices in the capital slowed down slightly in 2017, in light of the end of undervalued house prices, this sub-market of the country, which plays a central role, must be monitored closely.⁴

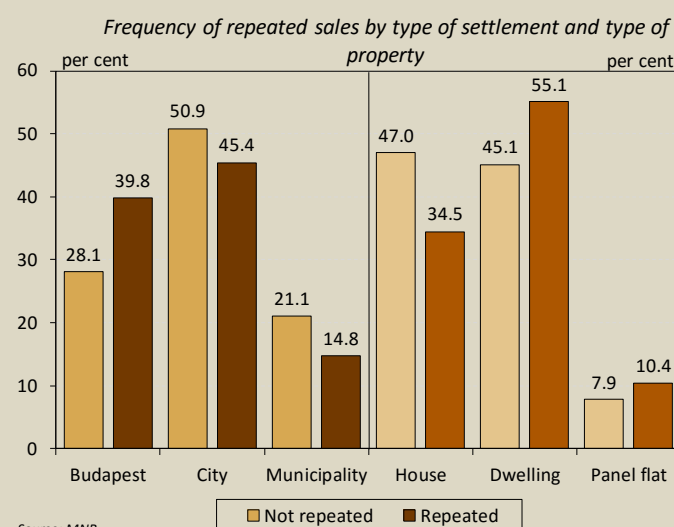
According to our forecast, Hungarian house prices may continue to rise in 2017 H2, but we expect a further slowdown in the growth rate. Based on our estimation, the short-term trajectory of house prices is closely related to real income trends, financing conditions and changes in permanent unemployment. Over the short term, we expect gradual growth in the volume of home starts as favourable demand and income trends remain in place, accompanied by further improvement in the labour market and the consistently low financing environment. Based on the forecast prepared using the estimated correlations, real house prices may continue to appreciate over the course of this year: overall, following the real house price appreciation of 13.1 per cent seen in the previous year we expect appreciation of 10.8 per cent in real house prices and appreciation of 12.9 per cent in nominal house prices on an annual basis (Chart 14).

⁴ 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 delivered by the individual methodologies. The four calculation methods are as follows: 1. Percentage deviation of the ratio of real house prices to disposable income from the average of the indicator calculated between 2001 and 2016. 2. Estimation of the long-term equilibrium of Hungarian house prices driven by macroeconomic fundamentals by means of a vector error correction model (VECM). For the detailed methodology see: Tamás Berki – Tibor Szendrei (2017): *The cyclical position of housing prices – a VECM approach for Hungary*, Magyar Nemzeti Bank, OP 126. 3. Estimation of the level of Hungarian house prices driven by macroeconomic fundamentals by means of a dynamic OLS model. 4. Deviation of Hungarian house prices from the equilibrium by means of a structural model used for forecasting house prices. For more details, see: Magyar Nemzeti Bank: Housing Market Report October 2016, Box 1. Deviation of house 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.

BOX 1: REPEAT SALES HOUSE PRICE INDEX APPLIED ON HUNGARIAN DATA



Forrás: MNB.

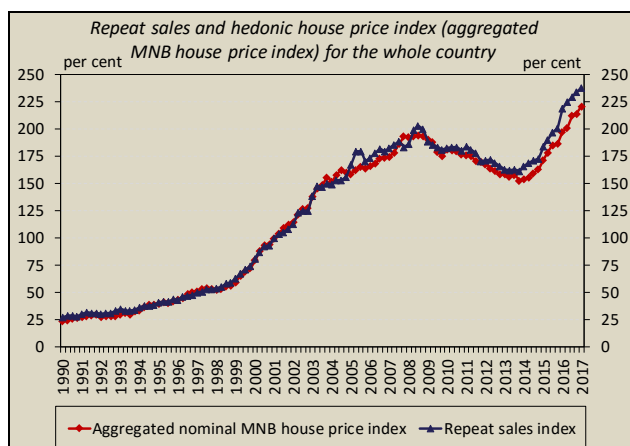


Source: MNB.

There are several methodologies in the international literature to calculate house price indices measuring changes in house prices. Of these, one of the most often used methodologies – which is also used for the calculation of the MNB house price index – is the hedonic regression methodology. According to the latter, the price of the real estate is explained through regression by its various characteristics (e.g. floor space, family house or condominium, location, etc.), and the sale date of the real estate is added to these characteristics, i.e. we estimate the partial effect of time on the price of the real estate. Another widely used method is the “repeat sales” methodology, where the average change in house prices is determined from the change in the price of repeatedly sold properties. With its long horizon (roughly 27 years), the database received by the MNB from the National Tax and Customs Administration – which contains housing market transactions and is also used for the estimation of the MNB house price index – facilitates the estimation of a house price index based on the “repeat sales” methodology. The new methodology marks an important step forward for two reasons. On the one hand, the methodology is used for the first time in the Hungarian housing market, and on the other hand, it represents an important robustness test for the MNB house price index prepared using a different approach.

The basic condition for estimating the repeat sales house price index is to identify properties that changed

hands several times within a certain period of time. In the period between 1990 and 2016 we identified 570,000 Hungarian housing market transactions where the same property was sold at least twice within 10 years. With this, recurring transactions account for 18 per cent of the total Hungarian market turnover. Within the recurring transactions, two sales accounted for the highest, about 72 per cent, share, while 10 per cent of the homes were sold more than three times. Properties sold repeatedly are not representative of the properties in the entire market turnover for several reasons. On the one hand, within the recurring sales the share of the properties in Budapest is significantly higher (by more than 10 percentage points) and on the other hand multi-apartment residential properties – particularly flats in non-prefab buildings – also account for a larger share in recurring sales. In the case of the repeatedly sold properties, the average time between two sales is 3.4 years, which takes a somewhat higher value in the case of houses and a slightly lower value in the case of multi-apartment residential properties.

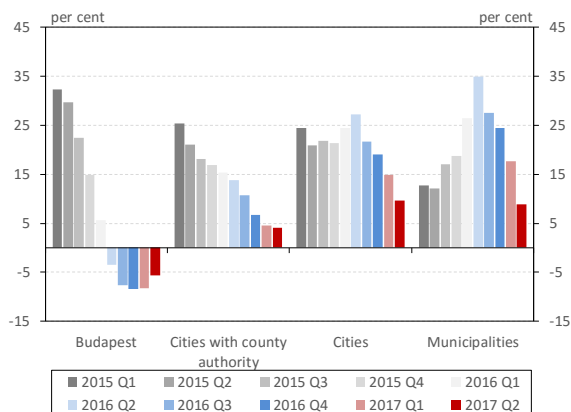


Source: MNB.

time profile of the two indices over the long run may signal the robustness of the hedonic house price index.

Relying on the recurring housing market sales which were identified, we estimated the standard “repeat sales” model, which needs no information other than the prices realised on the consecutive sales of the same property and the date of sales.⁵ Since the methodology requires fundamentally different data and also applies a different method for measuring the changes in house prices, compared to the hedonic regressions, it is suitable for testing the robustness of the MNB house price index, which is calculated with the latter method. On the whole, the “repeat sales” house price index estimated on domestic data has a similar time profile over the longer run as the national MNB house price index, although the house price index estimated with the use of the “repeat sales” model is slightly more volatile. The similar

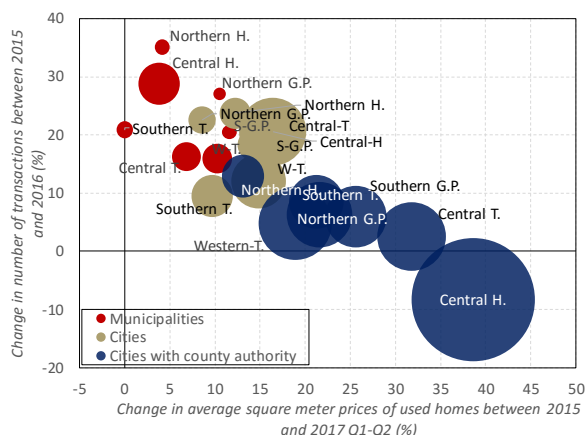
Chart 15: Annual growth rate of rolling annual housing market transactions



Note: 2017 is an estimate based on the preliminary data published by HCSO.

Source: HCSO, MNB

Chart 16: Changes in the average m^2 price of used homes and change in housing market transactions by regions and settlement types



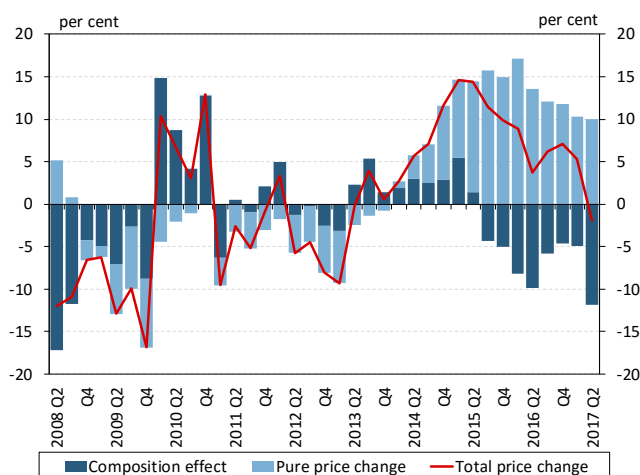
Note: 2017 Q2 is based on preliminary data. The size of the bubbles shows the average m^2 price of used homes in 2017 Q1 and Q2. Source: HCSO

Market turnover declined in the capital. The domestic housing market shows a heterogeneous picture, not only in terms of price changes by settlement type, but also because turnover varies for settlements of different sizes. At the end of 2017 H1, the number of rolling housing market transactions in Budapest was lower year on year, while turnover rose in the rural settlement market. In addition, the number of housing market transactions rose at a faster rate in smaller settlements, towns and villages than in the county seats (Chart 15). In the capital, the fall in market turnover may be due to the substantially stronger growth in house prices compared to the national average.

Market turnover rose at a lower rate especially in those areas where average square meter prices increased the most. Breaking down the housing market by region and settlement type, it is clear that housing market turnover grew at the slowest rate (or decreased) where average square meter prices rose the most. In addition, it can be also observed that square meter prices rose the most in the regions and settlement types characterised by higher price level (Chart 16). When examining the regions and settlement types of Hungary separately, in 2016 the number of transactions declined only in Budapest while the level of and change in the average square meter prices was also one of the highest here between 2015 and the first half of 2017. One general phenomenon is that in 2016 the number of transactions in the county seats already rose at a slower rate, while average square meter prices increased to a higher degree compared to smaller settlements. In addition, in 2016 market turnover typically rose most strongly in villages, while in these settlements neither the level of average square

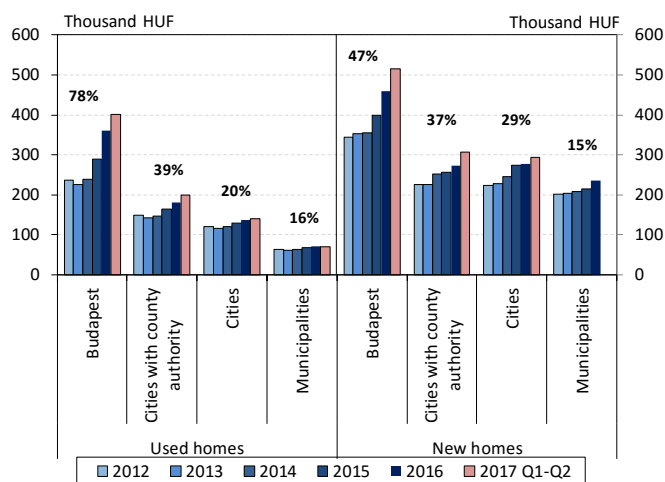
⁵ For the methodological description of the standard repeat sales model, see: Eurostat (2013): Handbook on Residential Property Price Indices (RPPIs), 2013 edition, Chapter 6.

Chart 17: Decomposition of the total price change based on the HCSO indices



Source: HCSO, MNB

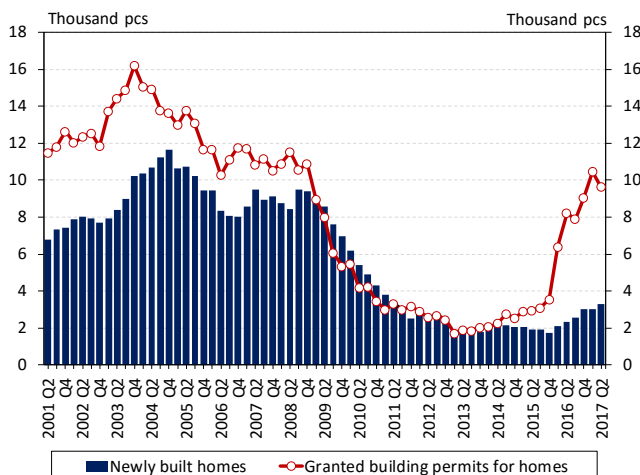
Chart 18: Average house price per square meter by settlement type



Note: 2017 Q2 is based on preliminary data. Changes in average prices between 2013 and 2017 Q2 are shown above the individual categories.

Source: HCSO

Chart 19: Number of residential construction permits issued and number of homes completed



Note: Seasonally adjusted data.

Source: HCSO, MNB

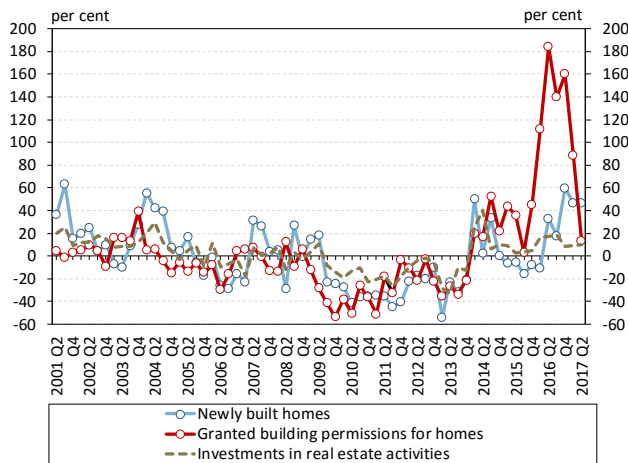
meter price nor the change between 2015 and 2017 H1 can be deemed high.

The change in the composition of turnover reduces the total observed price change. When examining the factors of the total price change measured in the market of used homes based on the HCSO house price indices, it is clear that the net price change still shows an increase of over 10 per cent, while the total price change shows a decrease. In the last eighteen months there was a downward shift in the composition index of the housing market transactions (*Chart 17*), which is linked to the recovery in housing market turnover in smaller settlements: within housing market turnover, the sales concluded in smaller settlements and villages – which are typically characterised by lower price levels – are gaining increasing weight.

In Budapest, the level of average square meter prices has already considerably diverged from the levels observed in rural settlements. For individual settlement types, and for new and used homes, there are large differences not only in the price changes, but also in the price level. The average square meter price of used homes sold in Budapest in the first half of 2017 already reached HUF 400,000, which corresponds to the average square meter price of new homes observed in the capital in 2015 (*Chart 18*). In the half-year under review, the average square meter price of new homes in the capital was already HUF 516,000. The average square meter price of used homes in the county seats is roughly half of the value observed in Budapest, while in the case of villages the price per square meter is less than HUF 100,000. In the case of new homes – with the exception of the capital – the difference in the level of prices regarding the various settlement types is somewhat smaller. In the first half of 2017, the typical average square meter prices were HUF 308,000, HUF 294,000 and HUF 236,000 in the county seats, towns and villages, respectively.

The positive trend in the housing market that started in 2014 was primarily linked to the sale of used homes. Following the upturn in the used home market, the downtrend in the number of housing starts halted, and as early as 2016 a gradual increase can be observed. Housing starts accelerated further in the first half of 2017: in the first two quarters 6,270 homes were completed compared to 4,422 homes completed in the first half of 2016 (*Chart 19*). After 2013, there was dynamic growth in the number of construction permits, which surged higher in 2016. After the rapid growth registered last year, in early 2017 the number of construction permits issued kept rising at a more moderate rate. On the whole, the number of new construction permits issued approximated the pre-crisis levels by the first half of 2017.

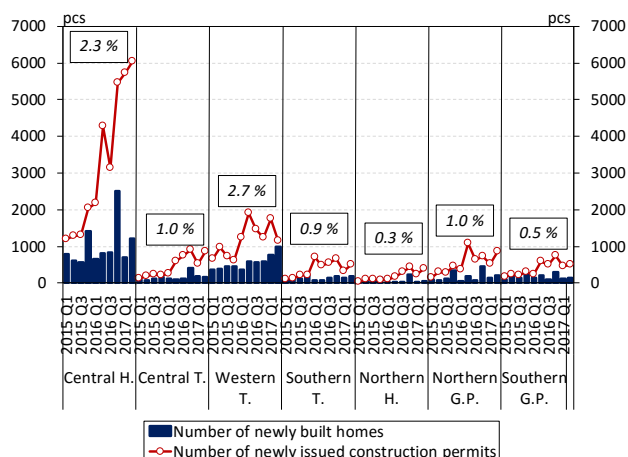
Chart 20: Annual dynamics of the number of construction permits issued, number of completions and real estate sector investments



Note: Seasonally adjusted data.

Source: HCSO, MNB

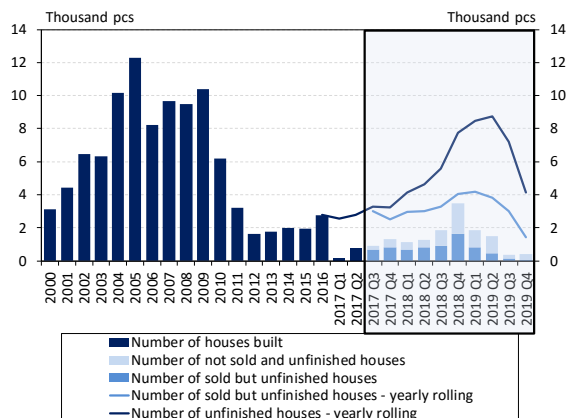
Chart 21: Construction permits issued and the annual growth rate of newly built home by region



Note: The numbers indicated above the individual regions show the ratio of new construction permits issued between 2015 Q1 and 2017 Q2 relative to the stock of dwellings on 1 January 2016.

Source: HCSO

Chart 22: Number of homes taken into use and the prospective number of incomplete new homes by the quarter of planned completion in Budapest



Source: ELTINGA – Housing report

Based on aggregated housing market data, in the first two quarters of 2017, both the number of homes sold and new supply rose compared to the previous year, although the number of completed new homes was still at a low level in a historical comparison. It should be noted that in the case of new housing projects under construction, the homes are typically put up for sale on a continuous basis well before the completion, and thus the rise in the supply of new homes essentially precedes actual completion.

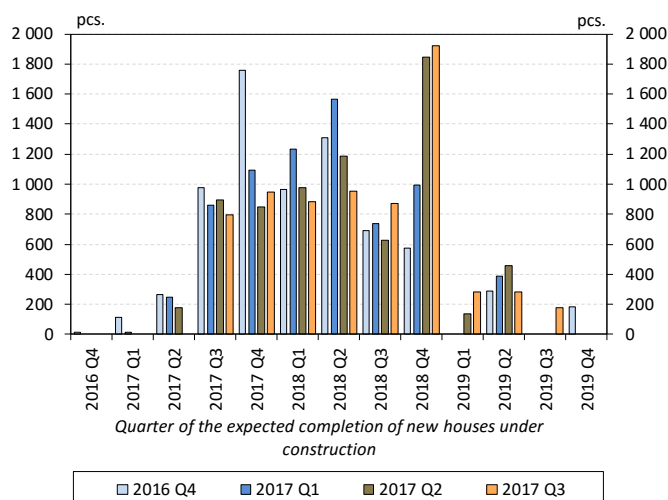
In line with the construction permits issued earlier, in the first half of 2017 the stable growth in the completed new dwellings continued. In the second quarter of 2017, more than 2,900 completions were registered, representing an increase of nearly 50 per cent in annual terms. On the whole, in the first half of 2017 the volume of housing completions rose by 46.4 per cent year on year. The number of construction permits issued was still able to rise even after the strong surge registered in 2016; in the first two quarters of 2017 growth of 40.2 per cent was registered (Chart 20). According to our estimates, the time from issuing the permit until completion may be 8-9 quarters, and thus based on the increase in the number of construction permits issued, further growth in the volume of new home construction can be expected.

New supply is rather heterogeneous by regions. The regional breakdown of the almost 20,000 new construction permits issued nationally in the first half of 2017 is strongly concentrated (Chart 21). About 59 per cent of the issued construction permits are linked to the Central Hungary regions – and accordingly to Budapest – while a further 15 per cent is connected with the West Transdanubian region and 26 per cent is shared among another five regions in the country. However, comparing the number of new construction permits to the stock of dwellings, the picture is slightly different. The number of construction permits issued since 2015 was the highest as a proportion of the stock of dwellings in the West Transdanubian region (2.7 per cent), followed by Central Hungary (2.3 per cent). Based on the construction permits issued, the smallest potential new supply relative to the stock of dwellings can be expected in North Hungary and in the South Great Plain regions.

3.2. New dwelling supply in Budapest

The supply of new dwellings in the capital is expected to peak at the end of 2018. In 2016, roughly 3,000 new homes were completed in Budapest, which represents an increase compared to the figure of roughly 2,000 registered in previous years, but still considerably falls short of the 8,000-10,000 new homes built annually before the crisis. In the first half of 2017, 981 new dwellings were completed in Budapest,

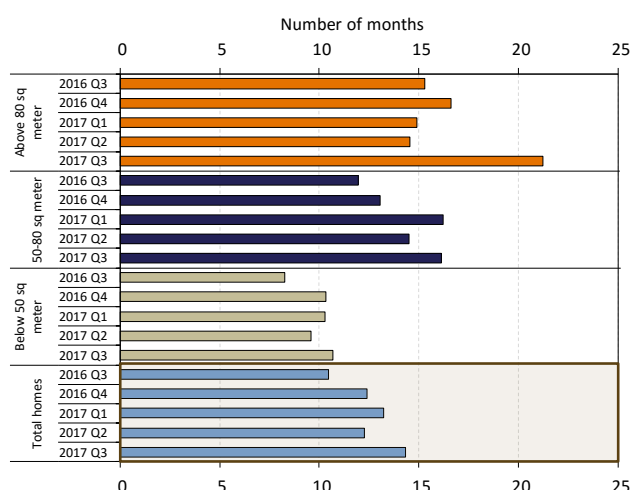
Chart 23: Breakdown of new homes under construction in Budapest by quarter of planned completion in four consecutive quarters



Note: Based on housing projects under uninterrupted development from 2016 Q4 to 2017 Q3.

Source: ELTINGA – Housing report

Chart 24: Expected time to sell⁶ new homes in Budapest



Source: ELTINGA – Housing report

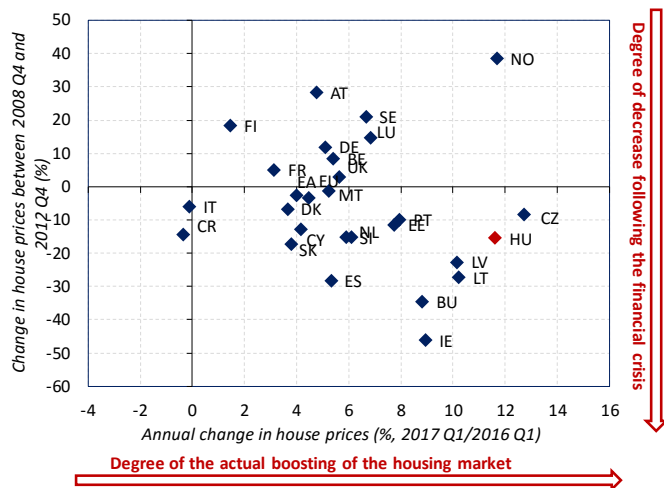
which corresponds to the year-on-year figure. Looking forward, no major expansion in the new supply in Budapest can yet be expected for 2017 as a whole. Based on the expected completion of new housing projects presently in progress, in 2017 the completion of 3,200 dwellings can be expected in total, while a larger scale rise in new supply is likely to take place in 2018. Of new dwellings under development, 55 per cent should be completed in 2018, and within that 45 per cent are should be completed in the fourth quarter. Thus, the completion of 7,700 and 4,100 new dwellings can be expected by 2018 and 2019, respectively (Chart 22). The peak in the new supply at end of 2018 and the expected decline in 2019 may be attributed to the termination of the VAT allowance on new dwellings from 2020. However, it should be noted that the decline in new supply in 2019 may also be explained by yet unannounced projects.

Delays may be experienced in the completion of several new dwelling projects. At the end of 2016 about 44 per cent of the new dwellings under development were planned to be completed in 2017 and 50 per cent of them in 2018. However, in the third quarter of 2017 we find that only 25 per cent of the same stock under construction will be completed in 2017, according to the plans, while the ratio of dwellings to be completed in 2018 and 2019 rose to 65 and 10 per cent, respectively. In Budapest, about 41 per cent of current projects (which existed a year ago as well) are expected to be completed with a delay; based on the projected average completion time in the last one year, these dwellings will be completed roughly 2.4 quarters later. Developers typically postponed the completion of dwellings originally planned for delivery in 2017 on a continuous basis to the end of 2018 (Chart 23).

There was a rise in the average time to sell new dwellings in Budapest. According to our calculations, the expected time to sell new dwellings that are under construction in 2017 Q3 in Budapest, rose from 12.3 months in the previous quarter to 14.3 months (Chart 24). However, there is a large difference in the expected time to sell new homes under construction to be sold on a continuous basis depending on the size of the dwellings. Smaller homes, up to a maximum of 50 m², sell the fastest, i.e. within roughly 10.7 months, which also slightly exceeds the value registered in the previous period. In the case of dwellings with floor space of 50-80 m², the expected time to sell is over 15 months (although this did not rise

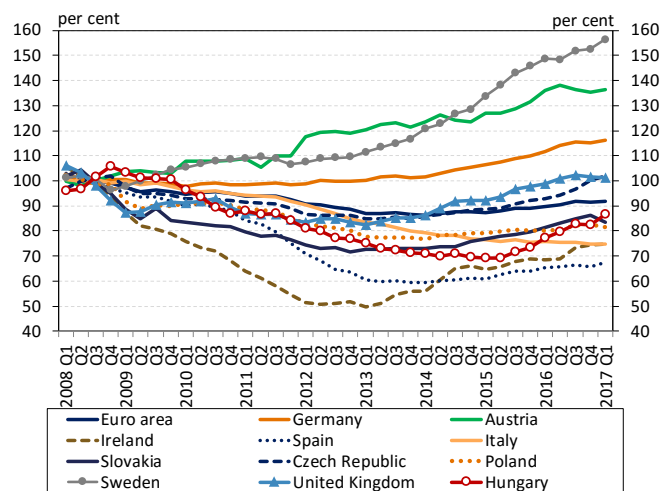
⁶ The expected time to sell new homes is calculated as follows: based on the dwellings sold in the given quarter, we first determine the probability of sale, and then assuming the latter to be constant we determine the expected time to sell the homes according to the following formula, expressed in months: (2-probability of sale)/2/probability of sale *3.

Chart 25: Change in house prices in the last one year and compared to end of 2008



Source: Eurostat, MNB

Chart 26: Real house prices in certain European countries (2008=100%)



Source: Eurostat, BIS, MNB

compared to the second quarter), and it takes even longer to sell new homes of 80 m² or larger. On the whole – reflecting a deterioration in the bargaining position of real estate developers – compared to the previous year, i.e. to 2016, times to sell substantially rose, which is presumably one of the consequences of the increased price level.

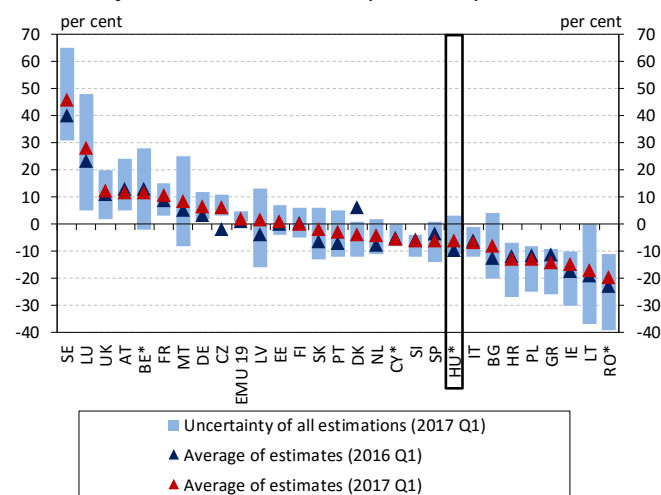
3.3. House price developments in an international comparison

In the vast majority of European countries, a rise in house prices can be observed. Apart from a few exceptions, in the European countries we observed rising house prices in the past one year (between 2017 Q1 and 2016 Q1). However, the individual countries show a very diverse picture in terms of the annual dynamics of house prices: the annual growth rate of house price across Europe varies between -0.5 and 12.5 per cent (*Chart 25*). For most countries, the growth rate is between 3 and 8 per cent, but in the case of five countries – the Czech Republic, Norway, Hungary, Lithuania and Latvia – house prices rose by more than 10 per cent in annual terms. It should be added that in the latter countries, with the exception of Norway, a substantial adjustment was seen in house prices after the crisis, and thus the current growth may as well be regarded as a kind of correction.

In real terms, the level of house prices exceeds the 2008 value only in the case of a few European countries. After 2008, in addition to the Visegrád countries, the real level of house prices declined significantly in several of the European countries under review. In the vast majority of these countries, real appreciation of house prices has been observed for years, but the real level of house prices failed to reach the 2008 value in most of the countries, similarly to Hungary (*Chart 26*). Exceptions include the United Kingdom and the Czech Republic, where real house prices already reached the 2008 level by early 2017, whereas in Sweden, Austria and Germany the real level of house prices, after continuous appreciation, have already substantially exceeded the 2008 level.

At the European level, house prices broke away from economic fundamentals in several countries. According to the estimate of the European Systemic Risk Board (ESRB), in the vast majority of European countries the level of house prices still falls short of the level justified by the macroeconomic fundamentals (*Chart 27*). However, according to ESRB, there are some countries where quite the opposite can be observed. According to the estimates, the largest overvaluation is registered in Sweden and Luxembourg. In the first quarter of 2017, house prices exceeded the justified level by roughly 46 per cent in the first

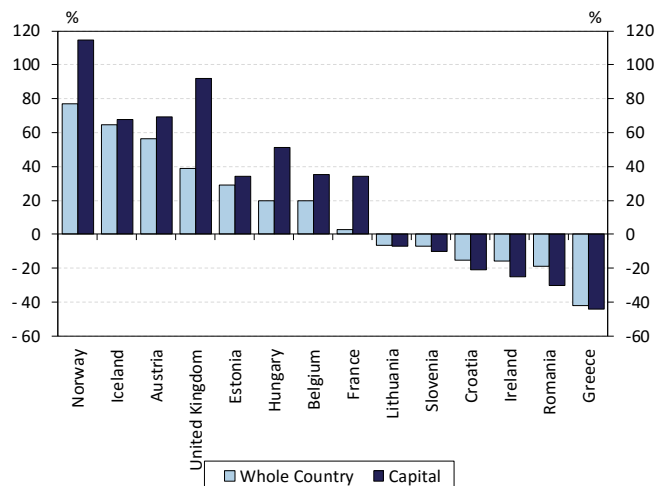
Chart 27: Deviation of house prices from the level justified by fundamentals in a European comparison



Note: In the case of the countries marked with * the reference period of the data is 2016 Q4 and 2015 Q4.

Source: ESRB.

Chart 28: Changes in nominal house prices in European capitals and nationally between 2008 Q4 and 2017 Q2



Note: Change in prices based on pure price changes: Hungary, Romania, Norway, Lithuania, Slovenia, Croatia. In the case of other countries, based on average house price or average m² price.

Source: BIS, MNB

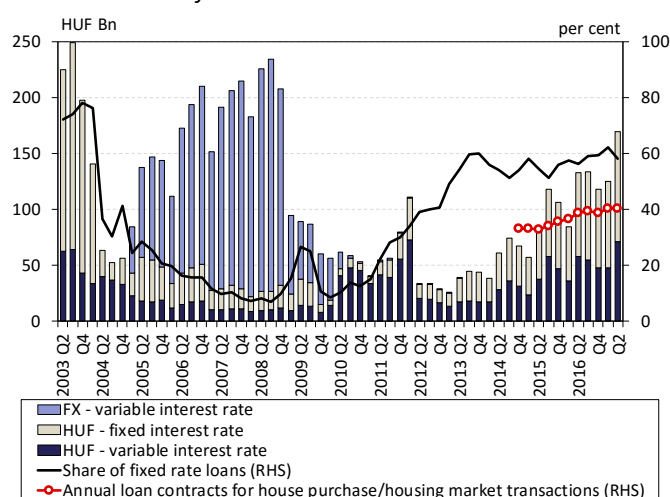
country and by almost 28 per cent in the latter. Moreover, in these countries the overvaluation of house prices rose even further between 2016 Q1 and 2017 Q1. In the case of the United Kingdom, Austria, Belgium and France, the ESRB estimated a somewhat lower overvaluation, amounting to slightly more than 10 per cent. It should be noted that the latter values apply to the countries as a whole on average, while the larger scale price rises observed in the capitals may represent a higher risk.

In the capitals of the European countries, the change in house prices is more volatile than the national average. In those European countries where at present the nominal level of house prices is higher than at the end of 2008, an even larger increase in house prices can be observed in respect of the house prices in the capital. In addition, in those countries where house prices have not yet reached the pre-crisis level, we can see an even larger decrease in house prices in the capital than the national average. On the whole, it can be observed that in the capitals home prices were more volatile compared to the national average and changed with larger swings. In the case of Norway and the United Kingdom, one of the most striking phenomena is the difference in the post-crisis rise in house prices nationally and in the capital. In Norway, since the end of 2008, house prices rose by 77 per cent on a national average and by 114 per cent in the capital. In the same period, in the United Kingdom the national average of the house price rise was 39 per cent, while in the capital prices increased by 92 per cent (Chart 28).

4. FEATURES OF THE RESIDENTIAL MORTGAGE LOAN MARKET

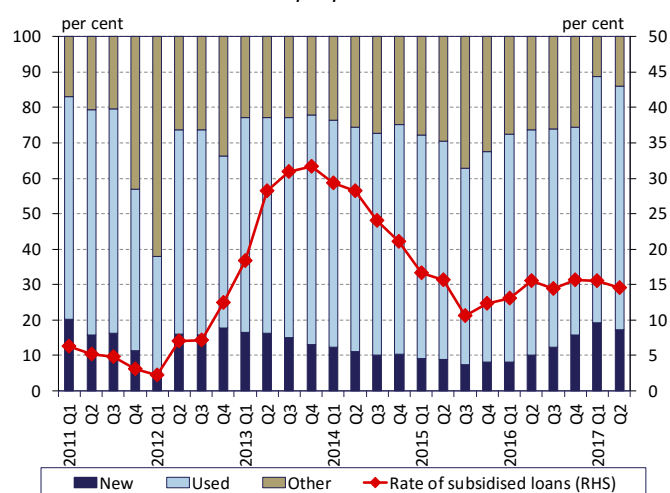
In the first half of 2017, the role of borrowing in housing transactions increased further. The volume of new housing loans increased by 34 per cent on average annually. Within this, the value of loans for the construction or purchase of new housing rose by almost two and a half times, thus accounting for 18 per cent of new loans. The rise in new loans is primarily attributable to the continuous increase in demand. This is also supported by the high level of the housing affordability index and the banks' responses in the Lending Survey. In the case of households, demand is driven by the realisation of housing investments postponed since the start of the crisis, while the favourable labour market and wage conditions facilitate borrowing. All these factors, supplemented with the advantages of the low interest environment and the availability of the Home Purchase Subsidy (HPS) for families, support the rise in demand. Supply conditions are gradually easing: based on the banks' responses, credit standards have not changed significantly, but during the half-year both price and non-price conditions were eased moderately in the case of new loans. On the whole, in Hungary the existence of self-owned dwelling dominates housing status, but the ratio of housing loan borrowers and the volume of outstanding housing loans is low in a European comparison. Accordingly, there is further room for lending for housing purposes in the coming period.

Chart 29: Volume of new housing loans by interest rate fixation and denomination



Source: MNB

Chart 30: Distribution of housing loan disbursements by loan purpose



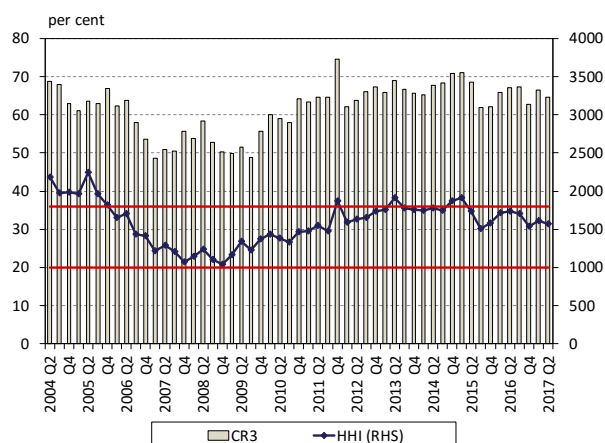
Note: Non-market loans related to HPS are classified as subsidised loans.

Source: MNB

On an annual average, the disbursement of new housing loans rose by 34 per cent. The dynamic rise in credit institution loans taken out by households experienced since 2014 can be observed in the largest volume in the field of housing loans. In the first half of 2017 and in the past one year, the total value of housing loans disbursed amounted to HUF 295 billion and HUF 546 billion, respectively (between 2002 and 2008, in the ascending phase of the previous lending cycle, the annual average housing loan disbursement amounted to HUF 660 billion). When eliminating the refinancing loans in 2015, related to the conversion of foreign currency loans to forint, the volume of housing loans disbursed rose by one-third on average annually (Chart 29). Despite the continuous increase in the volume of new contracts, the housing loan portfolio as a per cent of GDP is low both in a European and a regional comparison, and thus there is still plenty of room for lending growth (see Box 2). Within new loans, the ratio of variable interest rate loans increased slightly: compared to 2016 Q4, in 2017 Q2 42 per cent of the loans had variable rate, representing an increase of 1.1 percentage points. This rise was registered in contrast to the loans with interest rate fixation for 5 to 10 years, while the ratio of loans with an interest rate fixed for longer than 10 years has been in the range of 5-7 per cent since 2015. An increasing ratio of housing transactions is linked with borrowing: in 2015, 36 per cent of the transactions were financed – partially – from loans, whereas in 2017 Q2 this already applies to somewhat more than 40 per cent of transactions.

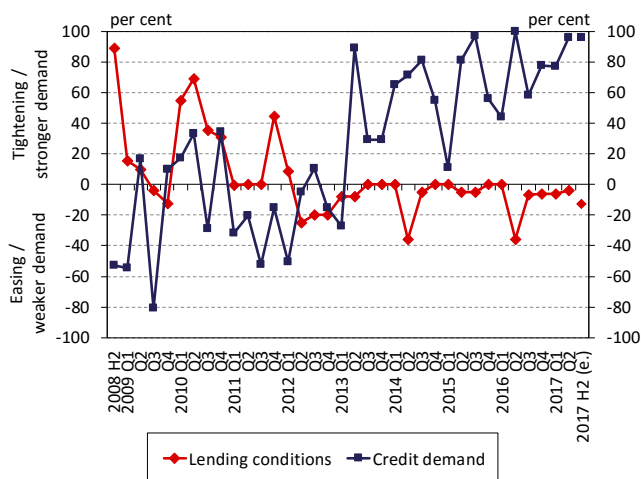
Loans drawn down for new dwellings accounted for 18 per cent of total new loans. In the six months under review, demand for housing loans continued to shift towards new dwellings: the total value of contracts concluded for the purchase or construction of new housing was HUF 54 billion, exceeding the total 2016 value of new loans for new homes.

Chart 31: Concentration on the new housing loan market



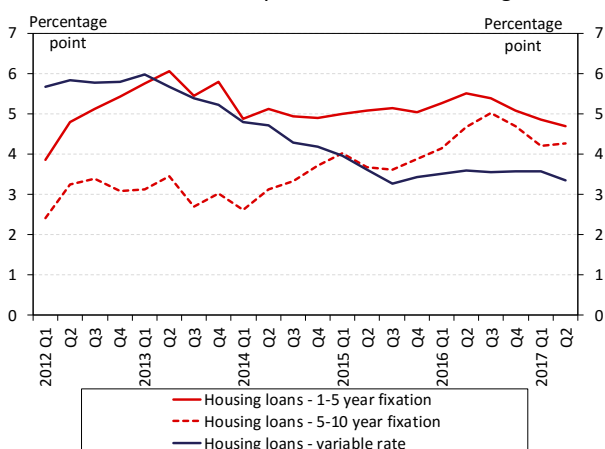
Note: The red lines indicate the Herfindahl-Hirschman Index thresholds: market concentration is low below 1000, moderate between 1000-1800 and high above 1800. Source: MNB

Chart 32: Changes in credit conditions and demand for housing loans



Note: Time series of lending conditions show the net ratio, i.e. the difference between banks tightening and easing weighted by market share. Source: MNB, based on banks' responses

Chart 33: Interest rate spreads on new housing loans



Note: APR-based smoothed spread over the 3-month BUBOR in the case of variable-rate or for up to 1 year fixed-rate housing loans, while in the case of housing loans fixed for a period longer than 1 year, the smoothed spread over the relevant IRS. Source: MNB

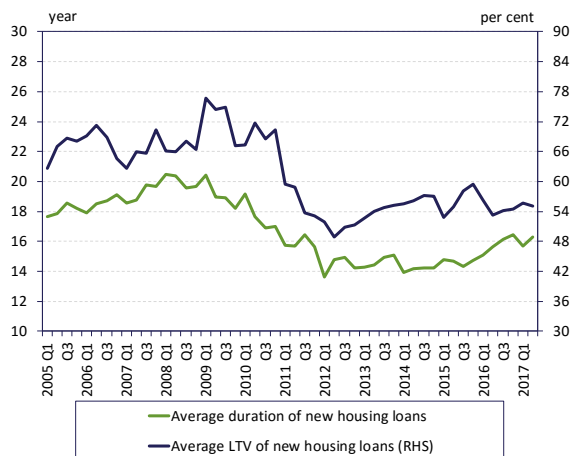
On an annual average, this corresponds to growth of almost 2.5 times in the value of loan contracts concluded for this purpose. Thus, the ratio of loans taken out for the construction or purchase of new dwellings amounted to 18 per cent on average in the first half-year (Chart 30). In addition to the foregoing, the ratio of loans taken out for used homes also rose, to the detriment of other housing purposes. The ratio of subsidised housing loans remained around 15 per cent. The change in the structure by loan purpose is also affected by the availability of the Home Purchase Subsidy for families (HPS). HPS subsidy contracts were concluded in the value of HUF 18 and 22 billion in the first and second quarter, respectively, 45 per cent of which was utilised for the construction of new homes and one-quarter of them for purchase. Borrowing related to the HPS amounted to an additional HUF 50 billion in the first half of 2017, 34 per cent of which represented the volume of maximum HUF 10 million preferential loan contracts that can be disbursed, in addition to the non-refundable grant of HUF 10 million.

The bank concentration ratio of new housing loan disbursements increased slightly. In 2017 Q1, the market concentration of newly disbursed housing loans rose, followed by a partial adjustment in the second quarter (Chart 31). By the end of the half-year the share of the three largest banks or banking groups exceeded the end-2016 value by 2 percentage points, and thus these three actors disbursed 65 per cent of all housing loans, signalling a strong concentration in the issuers of new loans.

The recovery in demand was accompanied by constant housing loan conditions. Based on the Lending Survey, only 4-6 per cent – in net terms – of the banks eased the housing loan conditions generally during the half-year, while in terms of the partial conditions a high ratio of the respondent banks reported a reduction of interest rate spreads and longer permitted maximum maturity (Chart 32). Based on the banks' responses, the easing was justified by their market share objectives, developments in the housing market and ample liquidity; nevertheless they plan no larger scale easing for the second half of the year. Under constant conditions, banks perceived a pick-up in demand for housing loans, particularly in the second quarter, when almost all respondent institutions reported rising demand. This trend is expected to continue for the rest of the year. The continuous, intensive rise in credit demand is supported by the availability of HPS on the supply side, and the realisation of home purchases postponed during the crisis, on the demand side.

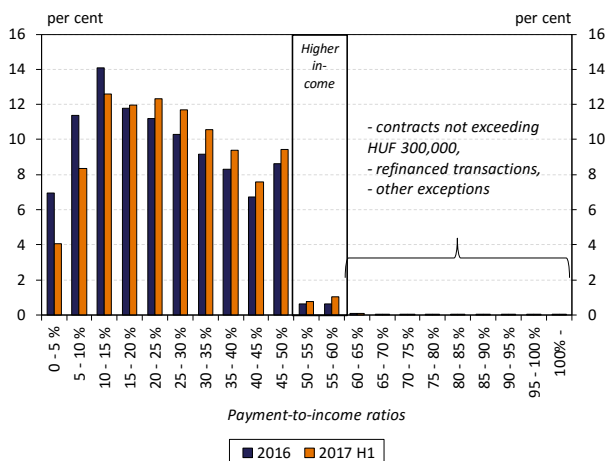
The cost of finance of housing loans decreased during the half-year. The average APR level of new housing loans decreased by 0.4 percentage point to 5.1 per cent from the

Chart 34: Average initial maturity and LTV ratio of new housing loans



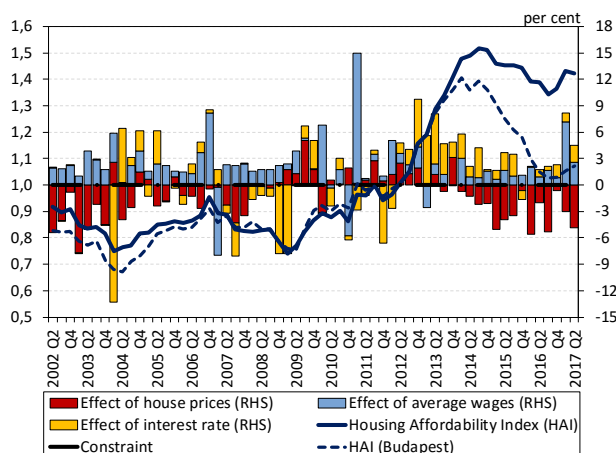
Note: Since 2011, the LTV ratio is determined based on the collateral's market value, and was determined based on the mortgage lending value prior to 2011. Source: MNB

Chart 35: Distribution of the number of new housing loans by PTI value



Source: MNB

Chart 36: Housing Affordability Index (HAI)



Note: HAI shows how many times the income of a household with two average wages covers the income necessary for the purchase of an average (65 m²) dwelling with a loan. Parameters of the loan product, except for the interest rate, are constant until maturity. LTV = 70%, PTI = 30%, maturity = 15 years. Source: MNB

end of 2016 to mid-2017. This decrease was observed for both variable and fixed rate loans: the average APR on variable rate loans or loans fixed for not more than 1 year fell by 0.7 percentage point, while that of fixed rate loans (for a period longer than 1 year) dropped by 0.5 per cent in the first half of 2017. The average interest rate spreads also declined in the period under review: the spread on variable rate housing loans dropped by 0.2 percentage point, and for loans with interest rate fixation of at most five years and more than five years it fell by 0.4 percentage point (Chart 33). Overall, the spread on fixed rate loans still exceeds that on variable rate loans.

In the period under review, easing in non-price conditions was observed.

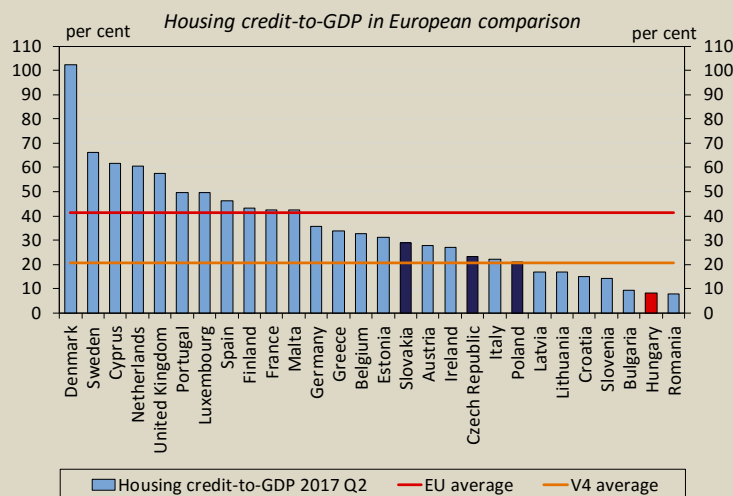
The average maturity of newly disbursed housing loans fell in the first quarter, followed by a slight increase in the second quarter, and thus it has not changed materially compared to end-2016 and remains around 16 years (Chart 34). The loan-to-value (LTV) ratio of disbursed residential mortgage loans increased in the first quarter, followed by a decrease in the second quarter, and as the combined result of these, on the whole it rose by 0.6 percentage point during the half-year to 55 per cent. The breakdown of the payment-to-income ratio – based on the number of instalments – shifted slightly toward the higher values, but only 17 per cent of the loans disbursed during the half-year belonged to the range of 40-50 per cent, close to the threshold value, which narrowly exceeds the frequency observed in 2016 (Chart 35). The average of the PTI values rose by 1.1 percentage points to 29 per cent as a result of a shift to the right in the distribution compared to the 2016 average.

As a result of the rise in the average wage, housing affordability from loans improved.

Based on the HAI, housing affordability from loans improved in the first half of 2017 (Chart 36). Although housing affordability is impacted negatively by the rise in house prices, during the first half of the year this was offset by the low level of interest rates and by the increase in average wages. Thus, despite the rising house prices, the financing of house purchase from loans, on a national average, is still a favourable opportunity for households. However, the heterogeneity by area should be taken into consideration: in Budapest – as a result of the substantially higher rise in house prices compared to the national average – the value of the index fluctuated at the affordability threshold in 2016, while affordability also improved in the capital city in the period under review.

BOX 2: CAUSES OF THE LOW LEVEL OF HUNGARIAN HOUSING LOANS, AS A PERCENTAGE OF GDP IN AN INTERNATIONAL COMPARISON

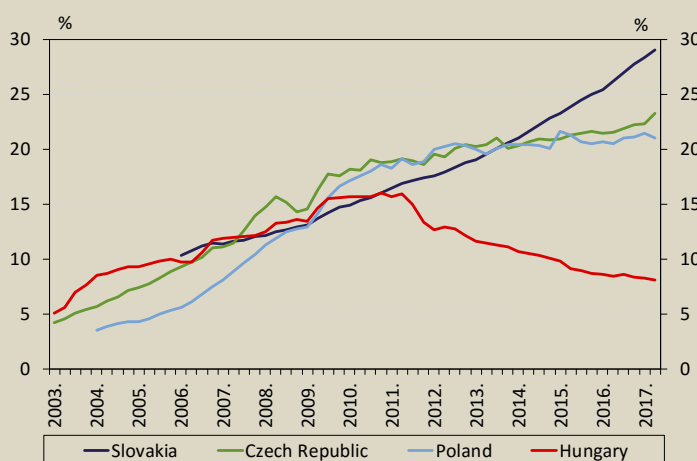
In mid-2017, the value of outstanding housing loans as a per cent of GDP was 41 per cent in the European Union. However, in the Visegrád countries, financial depth is much shallower than this: the average of the region is roughly the half of the EU average, i.e. 20 per cent. While lending in the region for housing purposes falls behind the European trends, in Hungary the GDP-proportionate housing loan portfolio is extremely small even within this group of countries, i.e. at only 8 per cent. The low Hungarian loan-to-GDP value is attributable to reasons reflecting regional features within Europe, and to others that explain the divergence of Hungary from the Visegrád countries.



Source: ECB.

The Visegrád countries differ from the rest of the EU Member States in two major factors. On the one hand, the ratio of individuals living in self-owned properties is 80-90 per cent, while the number of individuals living in *mortgaged* self-owned property compared to the entire population still far falls short of the average of the EU Member States. However, despite the high ratio of self-owned properties, based on the wide-spread overcrowding and inadequate housing conditions, there is still room for expansion in housing loans in the regions by improving the quality of the stock of dwellings. According to the Eurostat data, in 2016 41 per cent of the Hungarian population lived in overcrowded property (EU average: 17 per cent, Visegrád average: 35 per cent), and 16 per cent of the population lived in inadequate housing conditions (EU average: 5 per cent, Visegrád average: 8 per cent).⁷ On the other hand, in the Western countries, compared to the Visegrád countries – not independently of the antecedent history – the real and financial assets of the households are substantially higher, as a result of which they also undertake higher debt on average. Adding these, West European households still have higher net worth.⁸

Housing credit-to-GDP in Visegrad countries



Source: ECB.

Hungary shortfall compared to the region can be explained by two factors. On the one hand, the cyclical position of lending in Hungary differs from the regional cycle: in Hungary, principal amortisation is considerable due to the high volume of outstanding housing loans accumulated before 2008, which curbs the growth in the loan portfolio. Meanwhile, in other Visegrád countries in recent years the volume of disbursed loans exceeded the pre-crisis level. There is no significant amortisation in this young portfolio yet. The other factor is that the loan amounts drawn down are the lowest on average in Hungary within the EU. This may be attributable to the considerably higher credit costs compared to the region and to the different concentration within the real estate segment.

Since house prices within the region do not differ substantially, the segments of higher property value (e.g. the capital) presumably have a higher weight in the outstanding lending in the Visegrád countries other than Hungary.

⁷ For more details on this see: http://ec.europa.eu/eurostat/statistics-explained/index.php/Housing_statistics. It should be noted that the HCSO uses a different definition for overcrowding and inadequate housing conditions than Eurostat.

⁸ See MNB (2017): Financial savings of households based on micro- and macro-statistical data. <https://www.mnb.hu/letoltes/haztartasok-hun-0531.pdf>.

The recovery in lending for housing purposes has been seen since 2014 in the form of annual growth of 30-50 per cent in new contracts, and this year outstanding lending also started to rise as a result of loan transactions. Consequently, the GDP-proportionate housing loan portfolio may once again embark on a growth path in Hungary. However, over the medium run convergence to the region or the narrowing of the lending gap in household lending cannot be expected even with significant growth in indebtedness.⁹

⁹ See MNB (2017): Financial Stability Report, May 2017, p. 32, Chart 41 (<http://www.mnb.hu/letoltes/penzugyi-stabilitasi-jelentes-2017-majus-eng.pdf>).

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 Széchényi 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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