HOUSING MARKET REPORT

2020
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 2020)

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The housing market represents a key area at the level of individual economic operators (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 the short- and long-term prospects of economic activity. Overall, it can be stated that the housing market is intrinsically 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 through its financial position, and, moreover, influence the portfolio, profitability and lending activity of financial institutions through 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 the property market supply directly influences economic growth, while oversupply and inadequate supply can also have serious consequences for financial stability. Housing 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 a deeper insight into the factors behind market developments and the system of interactions between individual market agents by presenting a complex, wide-ranging array 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' represents a unique central bank publication at the international level as well, 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 the information provided by the Hungarian Central Statistical Office, the National Tax and Customs Administration and housing 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 the market participants and general government actors, with the contribution of the Housing and Real Estate Market Advisory Board (hereinafter: LITT) to shed light on the broader questions of the 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 Survey*[2] *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

Contents

1 Executive summary

In the first half of 2020, the economic impacts of the coronavirus pandemic resulted in a deterioration in the fundamentals that determine demand on the housing market. Employment decreased, but companies adapted to the situation primarily by increasing the number of part-time employees and reducing working hours. Wage dynamics slowed slightly, and the real income available to the population also fell. These uncertain economic prospects resulted in more caution from households, and consequently their savings increased significantly. Banks tightened the conditions of their housing loans, but some institutions anticipate an upsurge in demand for housing loans in the second half of 2020.

Over the course of 2020, processes on the domestic housing market developed differently in the capital to the rest of the country as a result of the coronavirus pandemic. In the second quarter of 2020, house prices underwent a significant adjustment in Budapest: on a quarterly basis, a decrease of 5.6 percent was observed on the strength of the latest MNB house price index. As a result, after a long time, June 2020 was the first time since 2013 when house prices in the capital fell by annual comparison, the rate of which was 2.5 percent. Preliminary data imply further decreases in prices in Budapest in the third quarter. Domestic house prices increased year-on-year on a national average, but the annual dynamics dropped to 7.5 percent in the second quarter from 17.9 percent at the end of 2019.

In the second quarter of 2020, as a result of the coronavirus pandemic, the number of transactions on the housing market dropped significantly, by 34 percent, compared to the second quarter of 2019, while Budapest experienced an even greater decline of 49 percent. The fact that the bargaining observed on the housing market increased from earlier years points to supply exceeding demand. Following the low number of transactions in the spring, from June the number of sales has already exceeded the level measured in the same period of the previous year, which may have been caused by postponed home purchases as well the lower base stemming from the demand-reducing impact of the introduction of the MÁP+ bond in the summer of 2019.

The number of newly built and delivered homes in the first three quarters of 2020 increased by 25 percent year on year, but most of this can primarily be attributed to the delay to 2020 of large volumes of deliveries planned for the end of 2019. The number of issued building permits dropped by 37 percent year on year, and looking ahead, a reduction in housing construction activity is likely given that property builders started to sell only 290 flats under development in Budapest in the third quarter of 2020, which is short of one tenth of the quarterly average experienced in previous years. The reduced home development activity can be explained three-fold: the return of the higher VAT rate at the end of 2019, the demand-reducing impact of the coronavirus pandemic, and the uncertainty and waiting caused by the brownfield programme regulation.

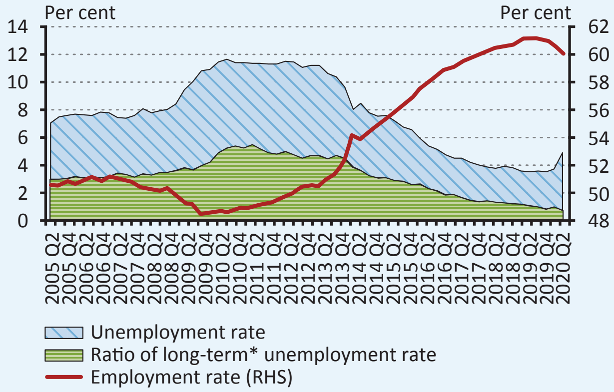
The existing support products, the home purchase subsidy (HPS) scheme and the prenatal baby support loans that make up 11 percent of retail loans, contributed to maintaining demand on the housing market during the pandemic too. Based on the survey conducted by the MNB, three quarters of the people with prenatal baby support loans will finance a housing objective with their loan, while one fifth of the housing loans were related to the HPS scheme in the second quarter. The new housing benefits announced by the Government, to be launched on 1 January 2021, may provide strong support to demand on the housing market from the start of next year, but until then the market may adopt a waiting position. The 5 percent preferential VAT rate that can be used until 31 December 2026 for newly built homes with final building permits received by 31 December 2022, as announced by the Government under the new housing benefit scheme, may increase housing development activity from the beginning of next year. The Home and Real Estate Market Advisory Board (hereinafter: LITT) believes that the permanent introduction of the preferential VAT on homes would support the development of new building industry capacities by establishing a market environment that is predictable over the long term. In Budapest and in larger towns in the country, the reduced VAT rate for brownfield areas could also help renew the stock of homes.

2 Macroeconomic environment

Employment declined, wage dynamics slowed moderately and disposable real income for households decreased in the first half 2020 as a result of the economic impact of the coronavirus pandemic. Savings grew substantially as the deteriorating economic prospects prompted households to become more cautious. The number of housing market transactions declined substantially due to the pandemic; however, demand has gradually recovered since June. The unfavourable real economic processes resulting from the presumably lengthy recovery as well as the anticipated decline in the dynamics of lending to households suggest a fall in housing market demand. On the other hand, the state subsidies on home purchases to be launched in 2021 and the favourable financing schemes already in place project increasing demand in the years ahead.

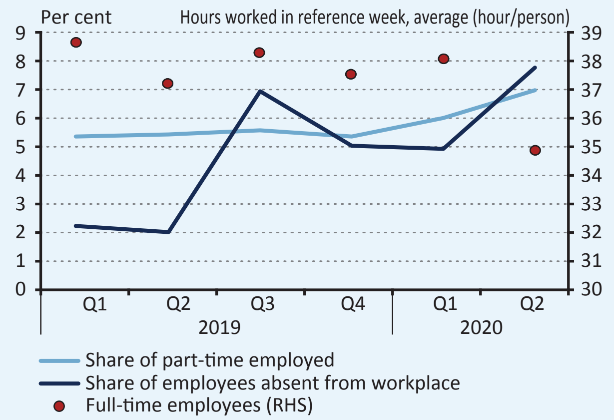
In the first half-year, the number of completed new homes increased substantially; however, the adjustment of the new home supply is still slower than in the previous real estate market cycle. The number of building permits issued has declined significantly in the past three quarters, and property development activity has also decreased, as a result of which the number and volume of newly launched home construction projects has fallen to the lowest level for several years. This, amongst other things, has also contributed to the fact that labour shortages have curbed construction output to a lesser degree recently. On the other hand, the temporary reintroduction of the preferential VAT rate on new homes would suggest an increase in supply in the years ahead.

Chart 1
Unemployment and employment



*Note: Age group of 15–74 years. * Unemployed for more than 1 year.*
Source: HCSO.

Chart 2
Labour market adjustment along the intensive margin



Source: HCSO.

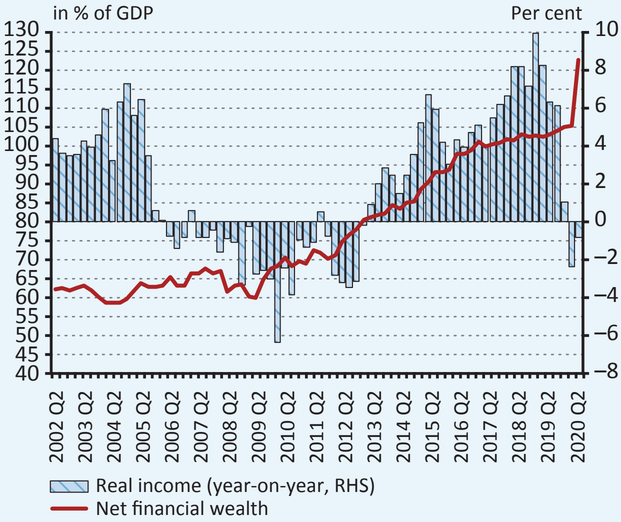
2.1 HUNGARIAN HOUSING MARKET DEMAND

Unemployment increased in the first six months of 2020 and wage growth decelerated, resulting in less favourable income trends. Households' income declined in real terms, while household savings increased materially due to growing precautionary considerations stemming from the deteriorating economic prospects caused by the coronavirus pandemic

The deterioration of labour market prospects points towards a decline in housing market demand. The economic effects of the coronavirus pandemic have brought labour force demand down accompanied by a substantial decrease in labour market constraints in the first half of 2020. Enterprises have adjusted to the changed economic circumstances primarily by increasing the number of part-time employees and reducing working hours (Charts 1 and 2). The negative impacts of the pandemic on the labour market were mitigated by job protection and creation subsidies. However, the epidemic curve may be more protracted than initially expected, and thus adjustments by enterprises to the number of employees may strengthen. The more unfavourable labour market environment projects a deterioration in household income prospects, which may give rise to decreases in willingness to invest and in housing market demand. We anticipate that the decelerating growth in wage dynamics may still decline further due to the rising unemployment rate resulting from the coronavirus.

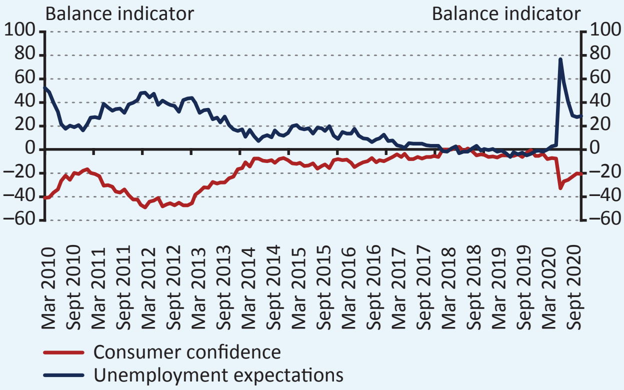
Uncertainty caused by the pandemic and the deteriorating income prospects have strengthened the precautionary

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



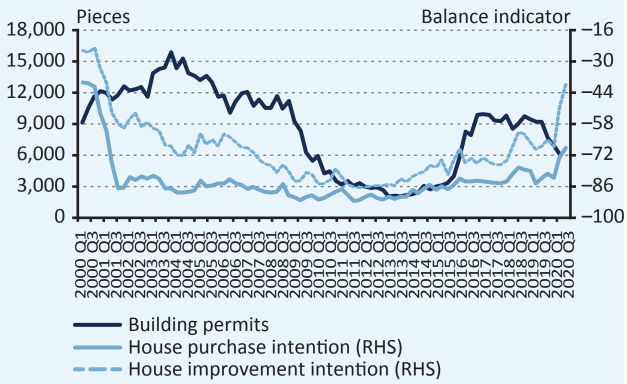
Source: HCSO, MNB.

Chart 4
Consumer confidence and unemployment expectations



Source: European Commission.

Chart 5
Changes in issued building permits and household motivations for home purchases/upgrades



Note: Seasonally adjusted data.
Source: HCSO, European Commission, MNB.

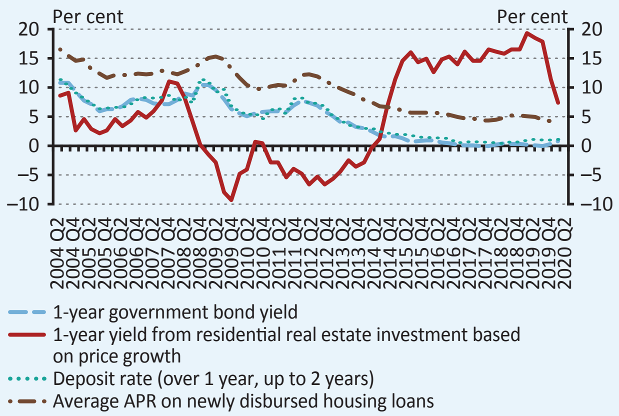
considerations of households. Disposable real income of households declined both in the first and second quarters (Chart 3). As a combined result of significant growth in savings and the decline in GDP, the net financial wealth of households as a percentage of GDP materially increased, standing at a historic high in the second quarter. In addition to the precautionary reserves and forced savings, the advance saving linked to household home building and home improvement plans may also have contributed to the growth.

The new home starter subsidies announced may support housing market demand even with the increased uncertainty. The growth in uncertainty for households is also intensified by the anticipated unemployment, which has stabilised at a higher level than in previous years, as well as in more moderate consumer confidence (Chart 4). This year, the unfavourable labour market and income trends, in addition to the expected fall in the growth rate in outstanding household borrowing, projects a further decline in housing market demand. At the same time, the new state allowances aimed at first-time homebuyers that commence next year – details to date are presented in Box 2 – may substantially boost demand in the years ahead.

Household willingness to improve and modernise homes increased further in the third quarter, which may materialise after the launch of the new subsidies in 2021. Based on the survey conducted by the European Commission, the ratio of households planning home improvements in the next 12 months has significantly increased. In addition, the willingness to purchase homes has also picked up. Looking ahead, the new government measures will support home purchases and home improvements from 2021. However, the number of building permits continues to decline significantly. In the second quarter, 5,443 building permits were issued, which is the lowest value since the first quarter of 2016 (Chart 5). The number of building permits issued may increase substantially in the future because of the reintroduction of a preferential VAT rate on new housing.

The low interest rate environment and the state subsidies aimed at first-time homebuyers may help to prop up demand on the housing market despite the coronavirus pandemic. Although households' income and labour market prospects reduce housing market demand, the favourable financing environment resulting from the low interest conditions might provide material support (Chart 6). In addition to the favourable loan and subsidy schemes provided by the existing first-time homebuyer and family protection measures (Home Purchase Subsidy for Families, Prenatal Baby Support Loans), the additional

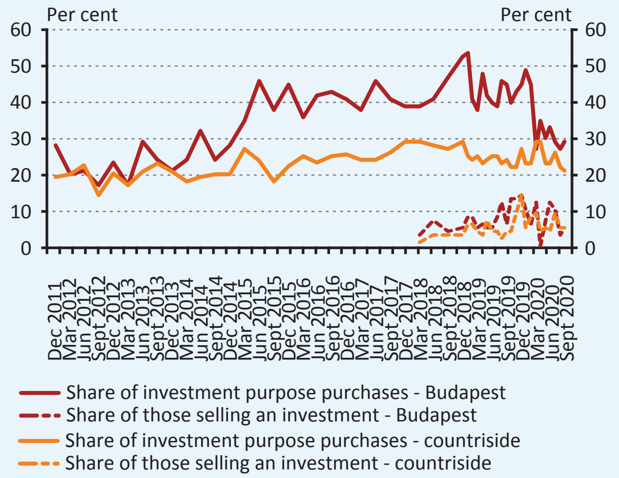
Chart 6
Changes in the yield premium realisable on home purchases through value appreciation, and in deposit yields



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

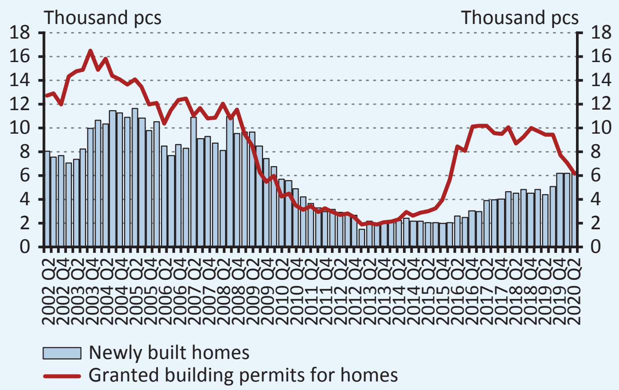
Source: Government Debt Management Agency, MNB.

Chart 7
Ratio of buyers for investment purposes and sellers of investments in Budapest and in the countryside



Source: Duna House.

Chart 8
Number of issued building permits and number of new completions



Note: Seasonally adjusted data.

Source: HCSO, MNB.

allowances announced by the Government in October 2020 significantly improve the affordability of home purchases. As a consequence of the decline in house price dynamics and the falling rents because of the decrease in tourism (Box 1), the market may be characterised to a larger degree by first-time home buying rather than house purchases for investment purposes.

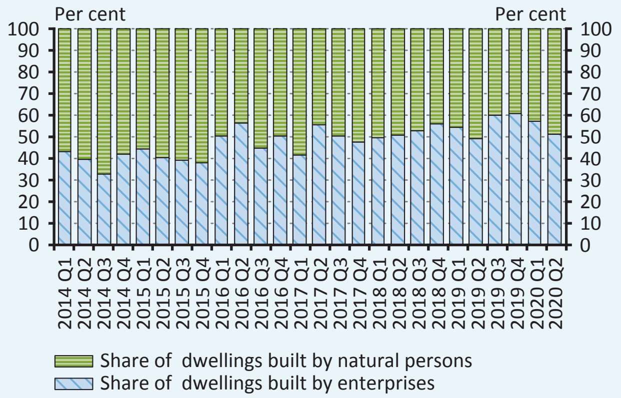
In the second and third quarter the ratio of buyers for investment purposes remained steadily at a lower level in Budapest. According to the information provided by estate agents, from March 2020 – i.e. after the introduction of the restrictive measures taken to contain the coronavirus – the ratio of buyers for investment purposes in Budapest fell substantially, i.e. from an average ratio of 43 per cent registered in the previous year to 30 per cent, while in the countryside no significant change was observed in investor interest. According to the experts of the Housing and Real Estate Market Advisory Board (LITT), investors continue to have confidence in the housing market. For the time being, the ratio of those selling their previous investments has not increased materially on the sellers' side, and thus there is no downward pressure on house prices for now (Chart 7).

2.2 HUNGARIAN HOUSING MARKET SUPPLY

In the previous housing market cycle, the housing market supply responded to increasing demand with substantial expansion; however, in recent years the significant growth in demand was not followed by growth in supply of a similar degree. Home construction trends, more moderate than in previous periods, were also hindered by a scarcity of construction capacity and a lack of skilled labour. In spring, the spread of the coronavirus pandemic in Hungary reduced demand on the housing market, while the number of new completions rose significantly in the first half-year by annual comparison. However, the latter is mostly attributable to the delays. The perception among enterprises is that due to the pandemic the role of the labour force decreased as a factor hindering production, while insufficient demand and financial constraints increasingly hampered production.

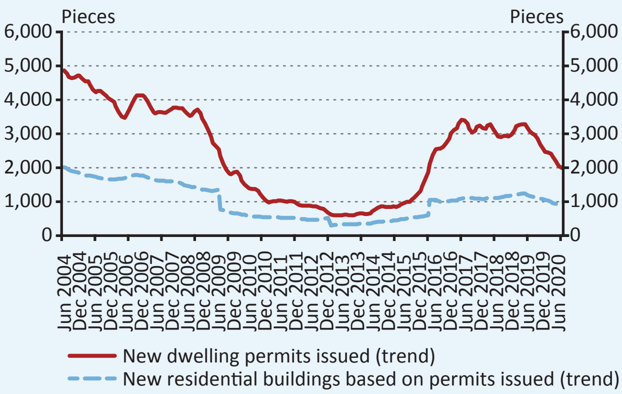
In the past two quarters the number of newly completed dwellings increased substantially year-on-year. The upswing on the supply side of the housing market, observed until the first half of 2019, and parallel with that the rise in the price level and yield that can be realised on property investment, entailed a gradual adjustment of supply, which – together with the introduction of a preferential VAT rate for new homes from 2016 – resulted in a rise in the volume of home constructions. In 2019, the number of completed dwellings rose further, but fewer new housing projects were launched by property developers than in previous years.

Chart 9
Distribution of new completions by developer



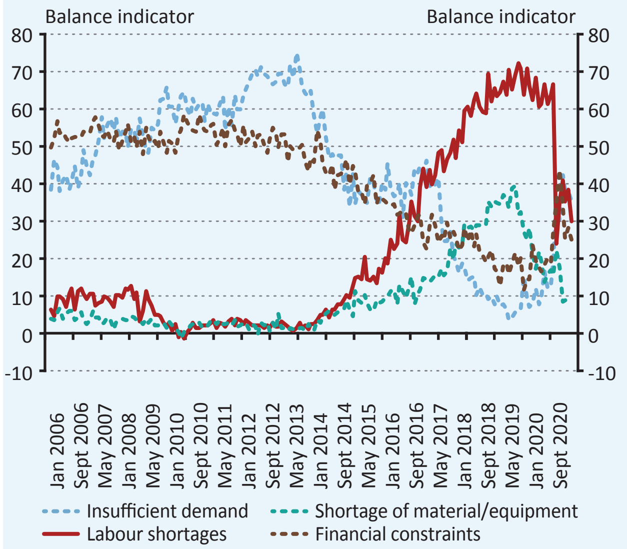
Source: HCSO.

Chart 10
Development of the monthly number of new homes and residential buildings to be constructed, based on the number of issued construction permits



Source: MNB estimate based on HCSO data.

Chart 11
Constraints on construction output



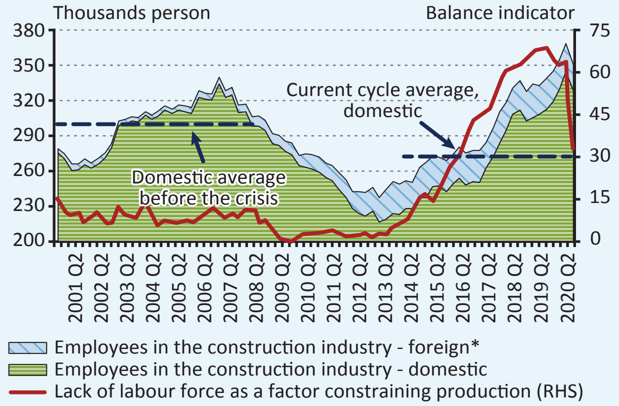
Note: Seasonally adjusted data.
Source: European Commission.

In the second quarter of 2020, there was a nearly 40 per cent increase in the number of completed dwellings year on year (Chart 8). However, the outstanding growth is partly attributable to the delay in constructions. A large number of projects, originally scheduled for completion by the end of 2019, were completed only in the first half of 2020.

In the second quarter, the ratio of enterprises engaged in the construction of new homes declined further. While homes built by natural persons accounted for the bulk of the newly built stock at the beginning of the housing market cycle starting in 2014, the supply-side response to favourable demand conditions spurred a sharp increase in the number of homes built by companies. While in 2014 over 60 per cent of home builders were natural persons, by 2019 more than one-half of new completions had been built by companies. In the past two quarters the ratio of dwellings built by enterprises declined (Chart 9). In the ascending phase of the housing market cycle, the number of issued building permits diverges from the number of residential buildings to be constructed, since parallel to the growth in the activity of property developers more homes are built in residential estates or in buildings accommodating multiple homes. Following the peak in the cycle, the number of building permits has started to decline and is close to the number of residential buildings to be constructed, which implies declining activity on the part of real estate developers. From last year, the number of new residential buildings to be constructed is already showing a slightly decreasing trend, while the number of new dwellings to be built is falling at a faster rate (Chart 10). Looking ahead, the return of the preferential VAT rate on new dwellings may temporarily halt the declining trend and result once again in a resurgence of activity among property developers.

In the third quarter, in line with cyclical trends, the factors hindering construction output eased. During the first wave of the pandemic, growth in production was also hindered by financial constraints, as well as by decreasing demand and a shortage of materials. In a survey published by the European Commission, in recent years the respondent construction companies regarded labour force as the factor hindering production the most; however, in April, the role of this factor decreased significantly. At the same time, financial constraints and insufficient demand became more important. As a result of the pandemic, it became more difficult to procure imported building materials due to interruptions in transportation. An additional negative impact of the coronavirus has been that demand conditions have worsened. In the descending phase of the housing market cycle, supply (materials, human resources) generally speaking represents less of a bottleneck, while demand becomes an increasingly dominant constraint. In line with this, financial constraints and the shortage of

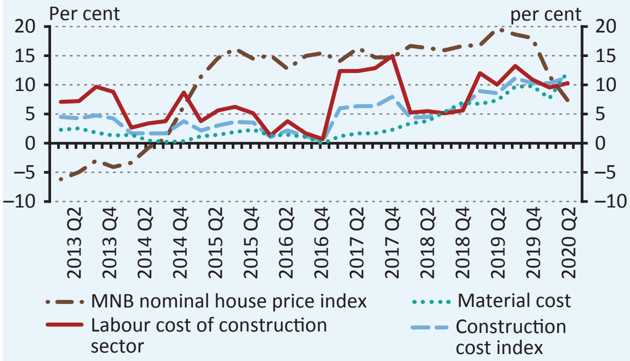
Chart 12
Number of employees in the construction industry



*Note: * Based on employees with households in Hungary.*

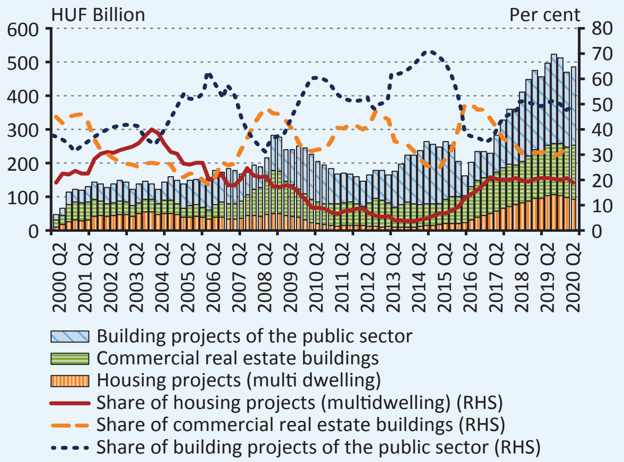
Source: HCSO, MNB, European Commission.

Chart 13
Year-on-year change in home construction costs and nominal house prices



Source: HCSO.

Chart 14
Performance of construction by sectors and share of individual sectors



Note: In the case of newly built projects, based on the amount used for building in the respective period. Home constructions do not include family houses. Commercial property constructions: hotel, office, wholesale and retail, transportation and communication, industrial, warehouse and agricultural buildings. Public sector: educational, healthcare and other buildings, and civil engineering projects together.

Source: EBI Construction Activity Report.

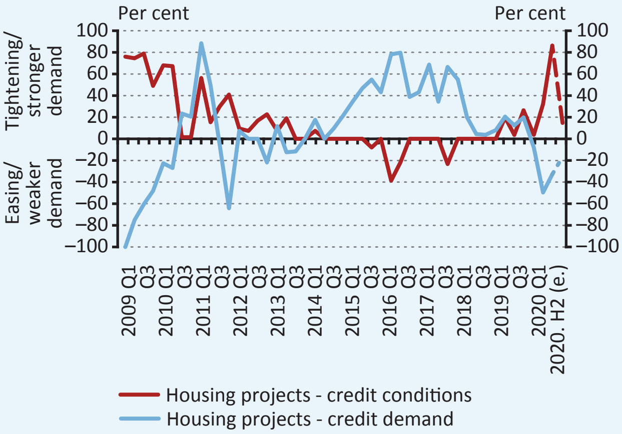
material and equipment eased during the third quarter. The role of labour shortage, as a factor hindering production, decreased, while demand constraints pose larger problems than they did before (Chart 11).

The number of Hungarian construction workers working abroad decreased as a result of the pandemic. Many construction workers undertook to work abroad, which in recent years has contributed to the scarcity of capacity on the labour market for the construction sector. The number of construction workers abroad has been gradually decreasing since the second quarter of 2019. An increasing number of workers returning to Hungary due to the coronavirus pandemic have been able to find work in Hungary; nevertheless, in the second quarter of 2020 the number of construction employees in Hungary decreased (Chart 12). The members of LITT pointed out that the order book for construction was shrinking, and that on the whole, demand was characterised by a wait-and-see position not only in the public sector but also in the private sector. Experts believe that the sector needs to retain employees to maintain construction capacity.

According to HCSO data, the increase in home construction costs accelerated slightly in the second quarter. The annual growth rate of house prices declined substantially in the first half-year and, for the first time since 2014, fell short of the growth in construction costs. Labour costs in construction once again registered double-digit growth in the second quarter; however, a large part of the growth is attributable to statistical effects. The dynamics of construction material costs substantially accelerated and outpaced the growth rate of labour costs (Chart 13). This year, the change in construction costs could be affected by several contradictory factors. The measures taken to ensure safety at work generate extra costs for enterprises. However, the increase in construction competition due to the decrease in orders points to a decrease in construction costs.

The public sector exerts a procyclical effect on construction output. Since 2018, construction projects related to the public sector accounted for the greatest part of construction performance. In the first half of 2020, the amount spent on the construction of new educational and healthcare buildings as well as civil engineering investments linked to the public sector accounted for 47.8 per cent of the total amount spent on new building projects in construction. The ratio of commercial property investments was 32.6 per cent, while that of condominium home constructions was roughly 19.6 per cent. From 2017, public sector investments rose, parallel to the pick-up in condominium housing project investments, exerting a procyclical effect on construction performance, which existed during the 2008 crisis in the opposite direction (Chart 14).

Chart 15
Credit conditions of housing projects and changes in demand



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.

Banks have tightened the credit conditions for housing projects in connection with the pandemic situation. After the onset of the coronavirus pandemic, the vast majority of banks, i.e. 87 per cent in net terms, tightened the financing conditions for housing projects due to the changed risk tolerance and industry-specific problems. Based on the responses in the Lending Survey, 14 per cent of the respondent banks, in net terms, plan further tightening in this segment in the second half of the year. Half of the respondent banks had already perceived a decline in credit demand related to residential property projects in the first quarter of 2020, and one third of them also identified this in the second quarter (Chart 15). Institutions believe that the decline may have been attributable to the lower willingness to invest in property, which is closely related to the previous phase-out of the 5 per cent VAT rate on housing in 2019. Although banks continue to anticipate decreasing demand for credit in net terms in the second half of the year, the reintroduction of the preferential VAT rate may boost housing projects from 2021 once again.

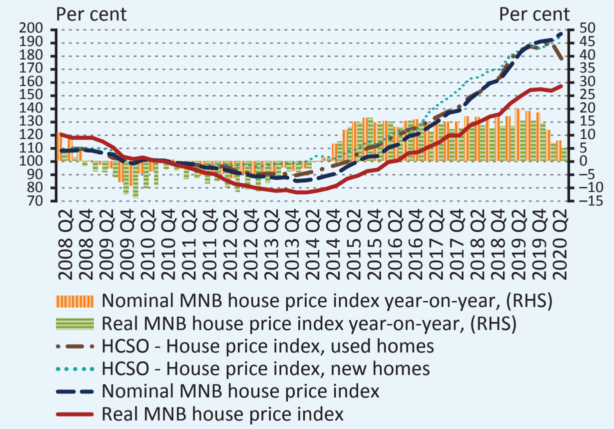
3 Current housing market trends

As a result of the coronavirus pandemic, the number of housing market transactions fell materially in the second quarter of 2020, by 34 per cent year-on-year. The fact the typical bargain is at a high level compared to previous years implies lower demand compared to supply. In the second quarter, house prices in Budapest fell substantially by 5.6 per cent compared to the first quarter. Consequently, the annual growth rate of house prices turned negative after a long time, sitting at -2.5 per cent, which may have declined further in the third quarter according to preliminary data. Following the low number of transactions registered in spring, the volume of sales and purchases increased from June compared to the year-on-year figures, which may also stem from the low base resulting from the postponed house purchases and the demand-reducing impact of the Hungarian Government Securities Plus (MÁP+), introduced in summer 2019. As a result of the negative impacts of the coronavirus pandemic on letting for touristic purposes, rents declined materially. Rents fell primarily in the downtown and transitional districts of Budapest. In these areas, a fall of roughly 11 per cent was observed between February and August 2020. Parallel to this, the number of flats to rent rose by 60 per cent in Budapest.

In the first three quarters of 2020, the number of new dwellings completed exceeded the year-on-year value by 25 per cent, which is partly attributable to the fact that some of the large volume of completions originally planned for the end of 2019 was postponed to 2020. The number of issued building permits declined by roughly 37 per cent year-on-year. In Budapest, the number of issued building permits declined by 84 per cent in the third quarter on an annual basis. Looking ahead, the fact that in the third quarter of 2020 condominium property developers in the coming years are planning to complete 15 per cent fewer new dwellings than a year ago implies a continued decrease in home construction activity. The decline in housing development activity is attributable to three factors, namely, the VAT rate returning to its previous level, waiting for the final regulation of the brownfield programme, and the demand-reducing effect of the coronavirus pandemic.

The new subsidies for first-time homebuyers, commencing on 1 January 2021, as announced by the Government in October 2020 – also including the VAT rate of 5 per cent on housing, applicable to newly built homes with final construction permits obtained by 31 December 2022 and enforceable until 31 December 2026 – may boost housing market demand and housing development activity from the beginning of next year. However, in the last months of 2020 the market may adopt a wait-and-see position. Apart from these, prolonged use of the preferential VAT rate on housing would support the development of new capacities in the long run by creating a predictable market environment. The renewal of housing stock in Budapest and in the larger provincial towns may be supported in the longer run by the preferential VAT for brownfield investments.

Chart 16
House price developments



Note: For house price indices (left-hand scale) the average for 2010 = 100 per cent.

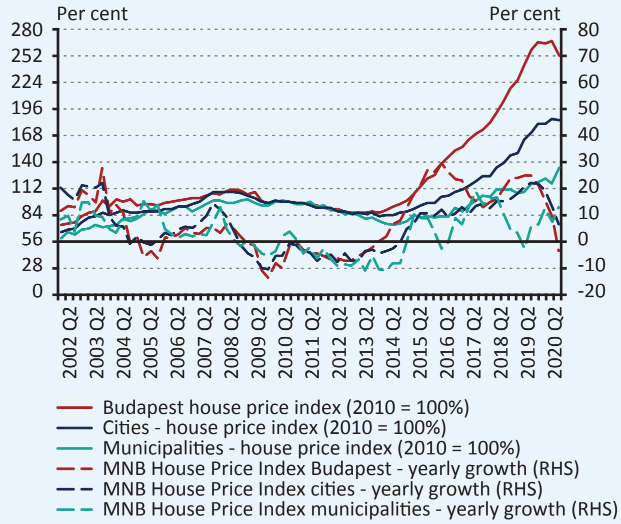
Source: HCSO, MNB.

3.1 HUNGARIAN HOUSING MARKET DEVELOPMENTS

In the first half of 2020, the growth rate of domestic house prices declined sharply. According to the MNB's housing price index,[3] in the first and second quarters of 2020 domestic house prices rose by an average of 0.6 and 2.3 per cent, respectively, in nominal terms. As a result, the annual growth rate of house prices declined substantially, from 17.9 per cent registered at the end of 2019 to 7.5 per cent, by the end of the first half-year. In real terms, house prices fell by 0.8 per cent in the first quarter of 2020, while in the second quarter they rose by 2.3 per cent by national average. Thus, by the second quarter of 2020 the annual real dynamics slowed to 4.9 per cent from 14 per cent registered at the end of the fourth quarter of 2019 (Chart 16). The annual growth rate of the Hungarian Central

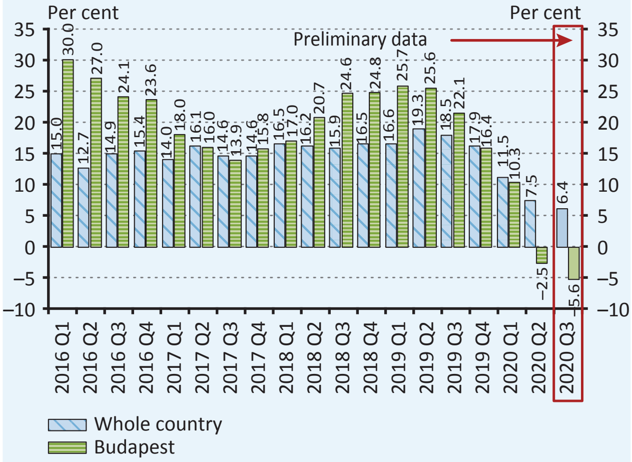
[3] For the details of the MNB's House Price Index Methodology see: Ádám Banai – Nikolett Vágó – Sándor Winkler: Az MNB lakásárindex módszertana (The MNB's house price index methodology), MNB Occasional Papers 127, Link: https://www.mnb.hu/letoltes/az-mnb-lakasarindex-modszertana-mnb-tanulmanyok-127.pdf

Chart 17
The MNB's nominal house price index by type of settlement



Source: MNB.

Chart 18
Annual growth rate of aggregate and Budapest house price indices of the MNB, with preliminary calculations



Note: The preliminary national index has been calculated on a sample covering 12 per cent of the market turnover, and the preliminary Budapest index on a sample covering 15.8 per cent of the turnover in the capital.

Source: Housing agents' database, MNB calculations.

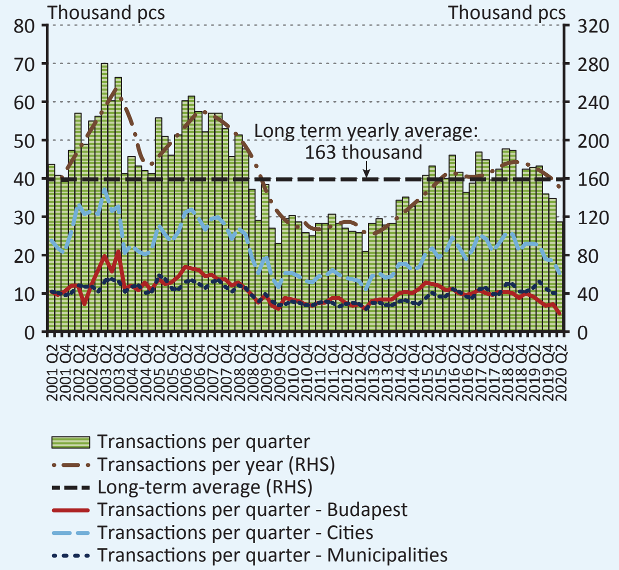
Statistical Office's (HCSO) house price indices monitoring the price change in used and new homes[4] also slowed, and at the end of the second quarter of 2020 they stood at -3.2 and 5.2 per cent, respectively.

In the second quarter of 2020, house prices in Budapest declined on an annual basis. In the first half of 2020 house prices followed different trends by type of settlement. In Budapest, in the first quarter, house prices were still rising slightly, by 1 per cent; however, in the second quarter they declined significantly, i.e. by 5.6 per cent. As a result, the annual dynamics of house prices plunged into negative territory for the first time since 2013, and at the end of the second quarter amounted to -2.5 per cent. In the provincial towns, similarly to Budapest, house prices rose (by 2.6 per cent) in the first quarter and declined (by 0.8 per cent) in the second quarter, and thus the annual dynamics fell to 7.3 per cent by the end of the first half-year of 2020, from 20.3 per cent registered at the end of 2019. On the whole, in the municipalities the annual growth rate of house prices developed similarly in the first half of 2020 to the end of 2019, and amounted to 13.8 per cent (Chart 17).

According to preliminary data, house prices in Budapest may have declined further in the third quarter. According to the preliminary house price index calculated based on the transaction data of housing agents, in the third quarter of 2020 house prices rose by 2.2 per cent as a national average; however, prices in Budapest fell once again, albeit slightly, by -0.3 per cent. As a result, the annual growth rate of house prices continued to decline; on a national average it fell from 7.5 per cent registered in the second quarter to 6.4 per cent. In addition, in Budapest in the third quarter house prices fell by 5.6 per cent on an annual basis (Chart 18).

[4] The house price indices of the HCSO and the MNB are prepared using different methodology; accordingly, in some cases they show different results for house price changes in the short run; however, over the longer horizon the indices estimated by different methodologies follow a similar path.

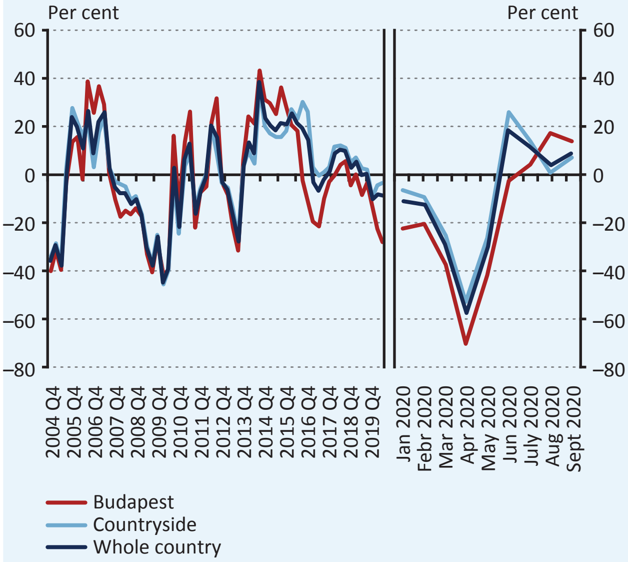
Chart 19
Quarterly and annual number of housing market transactions between individuals



Note: Taking into account only the ownership acquisitions of 50 and 100 percent. 2019 Q3-2020 Q2 based on estimation. Long term average: 2001 Q1-2020 Q2.

Source: MNB.

Chart 20
Annual change in the number of housing market transactions by settlement type



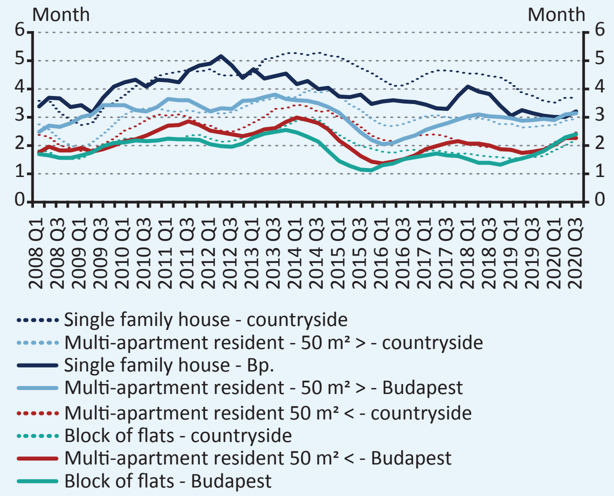
Note: Until 2019 Q4 based on comprehensive NTCA data, and thereafter based on housing agents' data.

Source: Housing agents' database, MNB calculations.

The number of housing market transactions in the second quarter of 2020 declined significantly due to the restrictive measures taken during the first wave of the coronavirus pandemic. In the first quarter of 2020 the number of housing market transactions concluded between private individuals was 34,000, which falls short of the year-on-year figure by 18.4 per cent. The impact of the coronavirus pandemic could not yet be felt in housing market turnover in the first quarter, as the restrictive measures taken due to the pandemic only entered into force in the second half of March. As a result of the restrictions, the number of transactions in the second quarter of 2020 fell short of the year-on-year figure by 33.9 per cent. The degree of the decline varied by settlement type. In the second quarter, the number of sales and purchases fell to the largest degree in Budapest, by 49.3 per cent on an annual basis, while in the provincial towns and in the municipalities the decline was 34.7 per cent and 19.9 per cent, respectively. The number of transactions concluded between the third quarter of 2019 and the second quarter of 2020 amounted to 140,000, which falls short of the long-term average of the annual number of transactions (Chart 19).

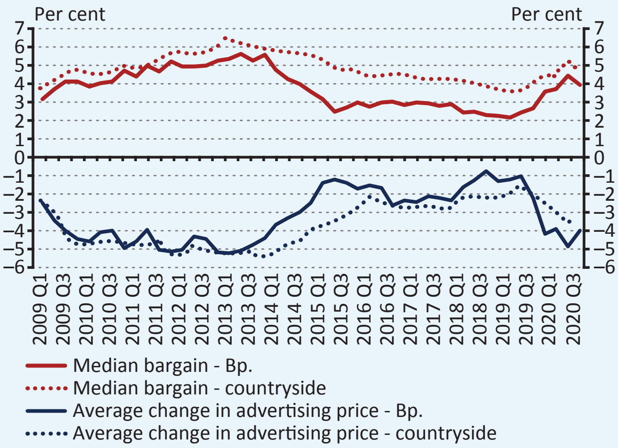
On an annual basis the number of transactions increased in summer 2020. Based on the transaction data of the housing agents, the domestic housing market was at its low in April 2020, when market turnover fell by 58 per cent year-on-year due to the restrictive measures introduced as a result of the pandemic. However, in the months after April the housing market started to recover rapidly; the number of transactions in May fell short of the year-on-year figure by only 31 per cent nationwide, and from June the number of transactions increased on an annual basis. In June 2020 the number of sales and purchases rose by 17 per cent in year-on-year terms, which is the combined result of the 25 per cent growth in countryside transactions and a 4 per cent decline in the transactions in Budapest. Thereafter, until September 2020, the number of sales and purchases increased every month year-on-year, registering growth in Budapest in August and September in excess of the national average (Chart 20). The annual growth in the number of sales and purchases in summer may also be attributable to the house purchases postponed from spring and the low base stemming from the demand-reducing effect of the Hungarian Government Securities Plus, introduced in June 2019.

Chart 21
Median time to sell residential property, broken down between Budapest and the provinces, and by type of property



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

Chart 22
Median bargain in the Budapest and rural housing markets, with the average change to the asking price



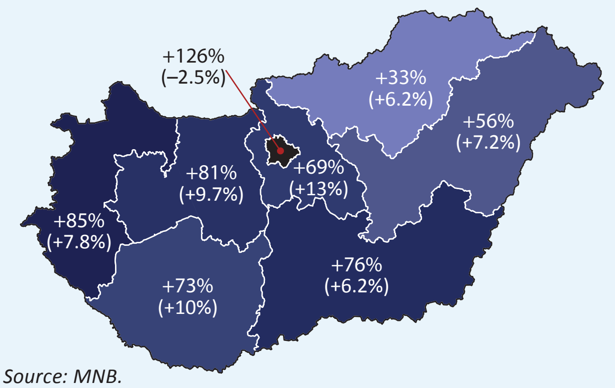
Note: Bargain: percentage shortfall of the transaction price compared to the last listed price. Change in asking price: percentage change applied to the asking price during the advertising period.
Source: MNB, housing agents' database.

The time to sell increased primarily in the case of smaller condominium flats in Budapest. In the first three quarters of 2020, the median time to sell residential property rose from 2.6 months to 3 months. However, there are material differences by property type and location. The time to sell increased mostly in the case of provincial panel flats, provincial non-panel condominium flats smaller than 50 square metres, and panel flats in Budapest, i.e. these types of flats have become most difficult to sell in 2020. However, investment demand used to be the highest for these very types of residential property. The typical time to sell provincial houses increased the least. Based on the data provided by housing agents, its median value was 3.7 months in the third quarter of 2020 (Chart 21).

Typical bargain in the market may be deemed high, which implies lower demand compared to supply. By the end of 2019, housing market demand shrunk materially compared to supply, indicated by both the rise in the typical bargain in the market and the larger average reduction of the list price during the advertising period. In 2020, the lower demand compared to supply persisted. In the second quarter of 2020, the median bargain in the market was 4.5 per cent in Budapest and 5.3 per cent in the countryside, rises of 0.9 and 0.8 per cent, respectively, compared to the values registered at the end of 2019. In the second quarter, the median change in the list prices during the advertising period was -4.8 per cent in Budapest and - 3.6 per cent in the countryside. In the third quarter the median bargain and the typical reduction of the list price decreased slightly in the third quarter, but in terms of level they still indicate lower demand compared to previous years (Chart 22).

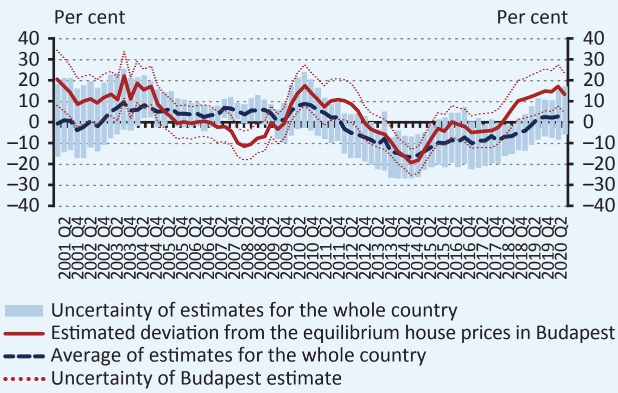
Compared to the peak of the previous cycle, i.e. to 2008, house prices are highest in Budapest. The recovery of the housing market, ongoing since 2014, and the degree of the accompanying price increase reflect major regional differences in Hungary. Compared to the end of 2008, the level of urban house prices is highest in Budapest in nominal terms, despite the larger adjustment in the second quarter of 2020, exceeding the level registered at end-2008 by 126 per cent on average. After Budapest, the largest increase in the housing market was registered in the cities of the Western Transdanubia, Central Transdanubia and Southern Great Plain regions, with a price rise of 85, 81 and 76 per cent,

Chart 23
Development of urban house prices by region between 2008 Q4 and 2020 Q2 (between 2019 Q2 and 2020 Q2)



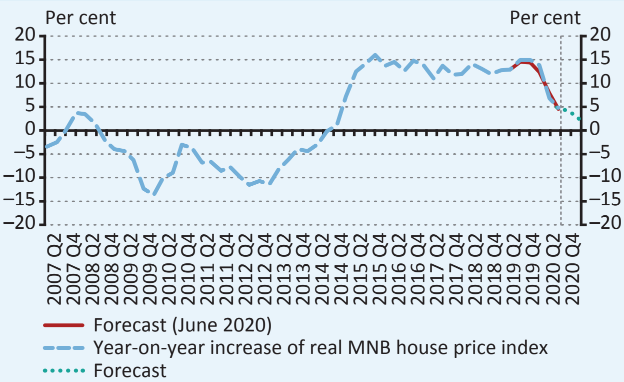
Source: MNB.

Chart 24
Deviation of house prices from the level justified by fundamentals, nationwide and in Budapest[5]



Source: MNB.

Chart 25
Forecast of the MNB's aggregated real house price index (annual change)



Source: MNB.

respectively between the end of 2008 and the second quarter of 2020. During the same period, the smallest price rise was registered in the cities of Northern Hungary, with 33 per cent (Chart 23).

Parallel to the deterioration in the fundamentals, house prices also declined in Budapest, and thus the risk of overvaluation did not increase further. In the first half of 2020, the fundamentals determining housing market demand – such as households' real income and labour market conditions – deteriorated due to the economic slowdown resulting from the coronavirus pandemic. By our estimates, house prices in Budapest exceed the level justified by the economic fundamentals. However, in the second quarter, house prices in the capital decreased parallel to the deterioration in the fundamentals, and thus on the whole, the risk of overvaluation declined somewhat. On a national average, house prices developed in line with the fundamentals determining demand (Chart 24). Looking ahead, the favourable financing environment and the announced allowances aimed at first-time homebuyers as well as the increasing supply thanks to the preferential VAT rate on housing may balance supply and demand more in the domestic housing market, particularly in Budapest.

In 2020, the annual real dynamics of house prices may decline further, materially, on a national average. This year the macroeconomic fundamentals underlying the housing market are developing less favourably than in previous years, which contributes to the decrease in the growth dynamics of house prices. The coronavirus pandemic is exerting a negative impact on households' real earnings and on the long-term unemployment rate shaping longer-term income prospects. Credit conditions were tightened and households' credit demand has also declined in the uncertain economic environment, which contributes to the decline in this year's growth rate of house prices. In the first six months house prices moved broadly in accordance with our earlier expectations. In the second quarter of 2020, house prices rose by 4.9 per cent in real terms on an annual basis. According to our expectations, in the third quarter the annual dynamics may be 4.2 per cent, while in the fourth quarter house prices may already be declining on a quarterly basis, and thus the annual dynamics may fall to 2.7 per cent – in line with the macroeconomic path projected in the September Inflation Report (Chart 25).

[5] 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 real income from the average of the indicator calculated between 2001 and 2016.2. 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: Tamás Berki – Tibor 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.

Box 1
Impact of COVID-19 on the Hungarian rental market

Relying on the data of ingatlan.com, below we examine the processes in the Hungarian rental market after the outbreak of the coronavirus pandemic. Our analysis is motivated by the fact that housing market demands have changed somewhat as a result of the pandemic. On the other hand, the prospect of tightening short-term letting also impacted investors, and based on the newly available data we can obtain a comprehensive view of both the supply and demand sides of the rental market.

Rental market supply

Since the onset of the coronavirus pandemic in Hungary, the number of dwellings to rent has risen significantly in Budapest, primarily in the downtown districts, where the dwellings formerly popular with tourists, typically let for the short-term, are located. Based on the data of ingatlan.com, in Budapest the number of properties to rent rose from 9,000 at the end of March to over 14,000 by the end of September, which is growth of almost 60 per cent. However, within the stock of almost 920,000 dwellings in the capital, this represents a shift of half a per cent. The most obvious growth in supply was observed in the downtown districts of Pest; here the rise in dwellings offered for long-term rental even exceeded 70 per cent.

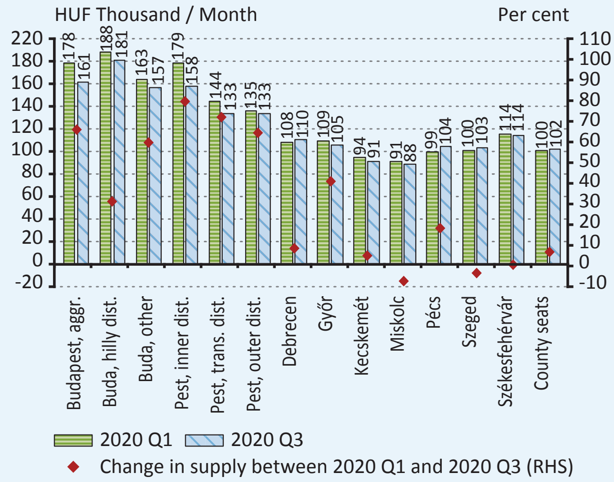
The major growth in supply in Budapest is mostly attributable to flats for tourists being switched to the long-term rental market. This market was shattered by the decline in tourism resulting from the pandemic, and by the fact that from 21 July 2020 local governments were vested with the authority to tighten the conditions of short-term rentals, which made medium-term operation of the respective segment more uncertain.

In recent years, short-term letting was not as common in the provincial towns, and thus the decline in tourism did not trigger a similar decline to that observed in the capital. This is also supported by the fact that in the county seats the number of properties to let increased by merely 4.8 per cent in total between March and September. However, this glosses over major differences in the rental market trends of the individual county seats; namely, while the number of properties for rent rose by 37 per cent in Győr for example, in Salgótarján it declined by more than 40 per cent.

Rents

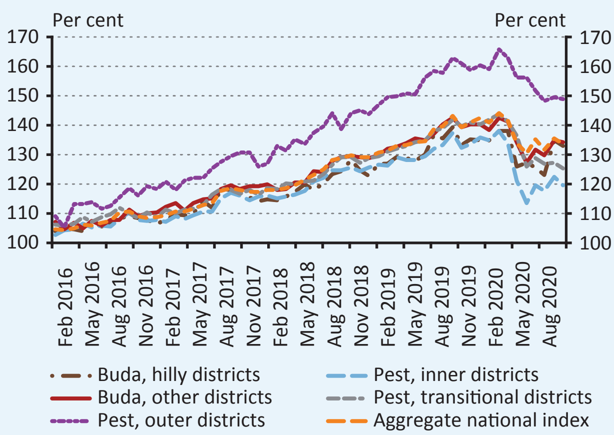
Parallel to the growing supply, average rents declined materially in Budapest. According to the rent index of

Change in the average monthly rent and supply of residential properties to let



Note: Buda, hilly districts: I., II., XII., Buda, other districts: III., XI., XXII., Pest, inner districts: V., VI., VII., VIII., IX., Pest, transitional districts: X., XIII., XIV., XIX., XX., Pest, outer districts: IV., XV., XVI., XVII., XVIII., XXI., XXIII.
Source: ingatlan.com

HCSO-ingatlan.com-rent idex on Budapest and on the whole country



Source: HCSO, ingatlan.com

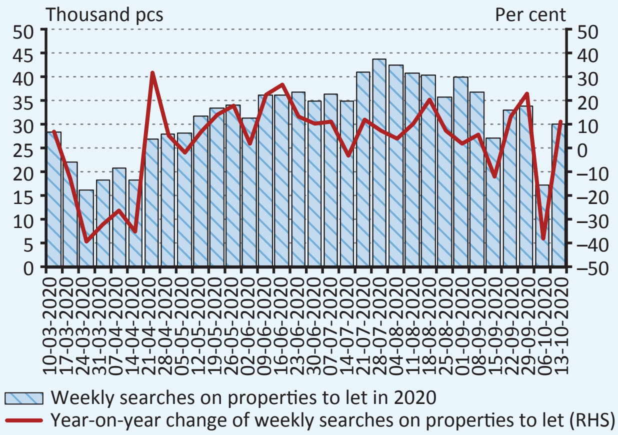
HCSO and ingatlan.com, the largest fall in rents, roughly 10.5-11 per cent, was measured in the downtown and transitional districts of Pest, popular with tourists, between February and August, but the Budapest market as a whole also registered a decline of 8.9 per cent. Illustrating with a simple example, this means that the rent of a 50 square metre property at median price level in the capital fell from HUF 178,000 at the end of the first quarter to HUF 161,000, i.e. a typical rental flat in the capital costs on average almost HUF 20,000 less than in the pre-pandemic period. By contrast, in District V, the decrease in rent for an average flat could even total HUF 30,000.

Rents in the provincial large towns varied compared to the pre-pandemic situation; rents rose in half of the county seats, and declined in the other half. At present, rents in the provincial county seats are 36.6 per cent lower on average than in the capital.

Demand – number of enquiries

The spread of the coronavirus and the restrictive safety measures introduced at the end of March also exerted a major impact on the demand side of the rental market. In March and April, the number of enquiries for flats to rent (based on the disclosure of phone numbers) fell by roughly 12 per cent in an annual comparison. However, starting from May a substantial pick-up was observed in the number of enquiries for flats to rent, and during the summer months the demand for flats to rent was 10 per cent higher on average than in the same period of 2019, which is presumably attributable to the fall in rents.

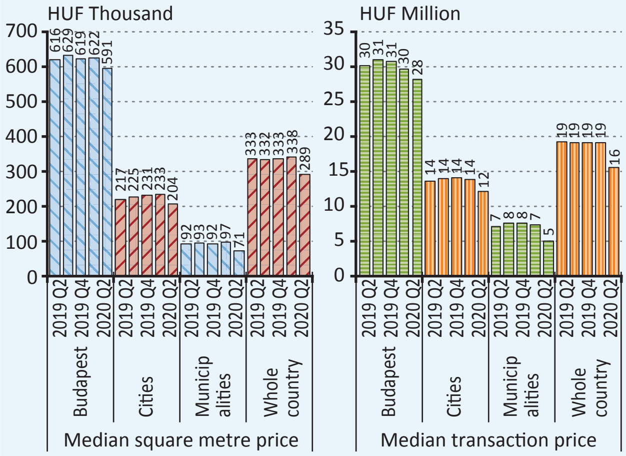
Development of the weekly searches on residential properties to let



Source: ingatlan.com

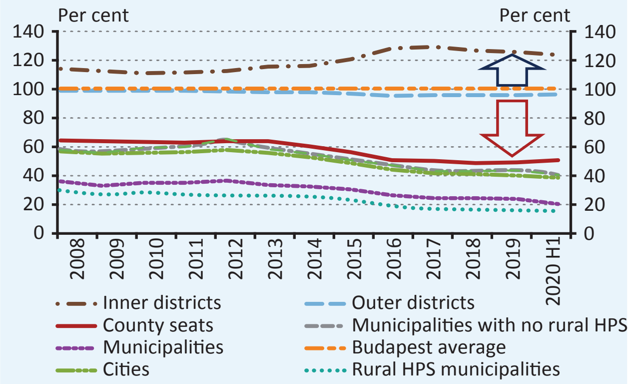
Looking ahead, the rental market may be shaped by the second wave of the coronavirus and the related restrictive measures. That an increasing number of higher education institutions are resorting to digital education methods, and thus the number and frequency of classes requiring a personal presence is decreasing, points towards a decrease in demand for rental flats. And, many owners may opt to sell their property investment as the market environment is again shrouded in uncertainty. However, the fact that many investors entered the market at a high price level, and thus are likely to adopt a wait-and-see position for a longer time, argues against mass selling.

Chart 26
Median house prices and square metre prices by type of settlement



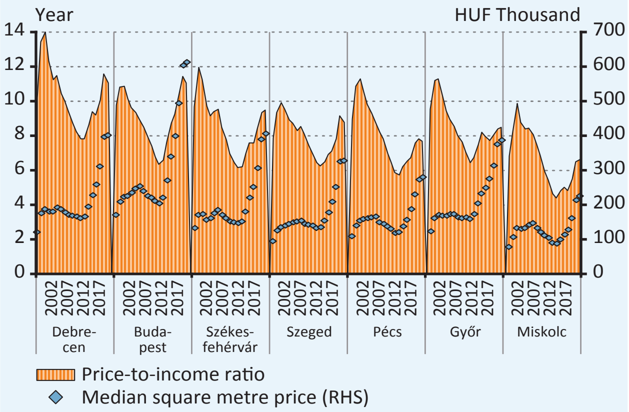
Note: Data for 2019 Q3–2020 Q2 are preliminary. The data for 2020 Q2 may be subjected to material revision.
Source: MNB.

Chart 27
Average square metre price by type of settlement (average of Budapest = 100%)



Source: NTCA, MNB

Chart 28
Price-to-income ratio in the regional centres of Hungary



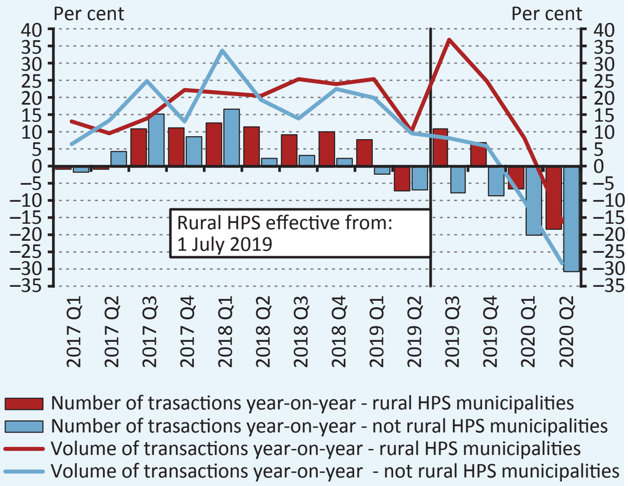
Note: The price-to-income ratio is the ratio between the price of a 75 square metre median real property and the average annual net income of the households. Average incomes are county level data.
Source: HCSO, MNB.

In the second quarter of 2020, both the median transaction sales price and the median square metre price declined substantially in Budapest and in the countryside as well. The median sales price of residential properties sold in the second quarter of 2020 amounted to HUF 15.5 million nationally, which falls short of the median price registered in the previous quarter and in the same period of previous year by 18.4 per cent and 18.8 per cent, respectively. The composition effect plays a major role in both the quarterly and the annual price change, which is attributable to the decline in the transactions in Budapest. In the second quarter of 2020, the median transaction price was HUF 28.0 million in Budapest, HUF 12.0 million in rural towns and HUF 5.0 million in municipalities. The median prices per square metre also decreased in the second quarter of 2020, amounting to HUF 289,000 at national level, HUF 591,000 in Budapest and merely HUF 70,000 in the municipalities (Chart 26).

The widening of the price gap between the square metre prices in the county seats and in the capital stopped in 2019, and it narrowed in the first half of 2020. As a result of the price increase, which commenced in 2014, the difference in house prices increased substantially between Budapest and the rural, particularly smaller, settlements. While the average square metre prices in the county seats, provincial towns and municipalities amounted to 63.4 per cent, 55.6 per cent and 33.1 per cent, respectively, of the average in Budapest in 2013 due to the greater increase in the prices of residential properties in Budapest, the same ratios decreased to 48.8 per cent, 39.7 per cent and 23.4 per cent, respectively, by 2019. However, these trends changed somewhat in the county seats in the first half of 2020, since average square metre prices rose to a larger degree in these towns than in Budapest, as a result of which the price difference compared to the capital narrowed somewhat (Chart 27).

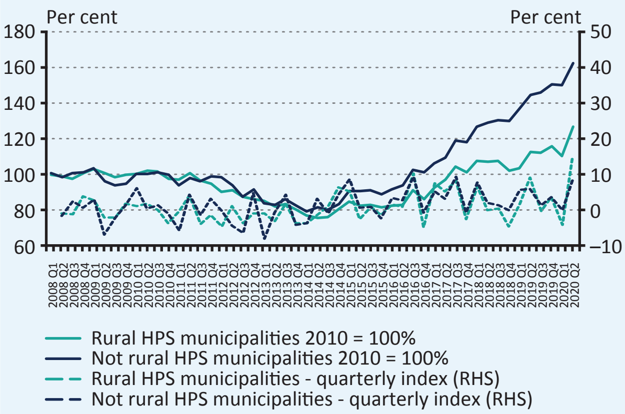
In addition to Budapest, housing affordability has also deteriorated significantly in several provincial cities in recent years; however, in the first half of 2020, an improvement was observed nationwide. In the first half of 2020, the ratio of house prices to average net incomes was the highest in Budapest and Debrecen, where buying a 75 square metre home at median price required approximately 11 years of local average income. Among the regional centres in the country, housing affordability is the highest in Miskolc, where less than 7 years of average income, below the national level, will buy a 75 square metre home in the median price bracket. In recent years, the increase in the value of the indicator has been most dynamic in Budapest, where in the first half of 2020 an additional 5 years of average income was required to buy a typical home compared to 2013 (Chart 28). In the first half of 2020, as

Chart 29
Number and volume of transactions in settlements with less than 5,000 inhabitants, eligible and not eligible for Rural HPS



Source: NTCA, MNB.

Chart 30
House price indices in village eligible and not eligible for Rural HPS



Source: MNB.

a combined result of the real estate market and income trends, the value of the indicator declined in most regional centres of Hungary compared to 2019. However, due to the tightening of credit conditions, this improvement will not necessarily be manifested in the affordability of properties.

The Rural HPS supports the housing market activity of settlements eligible for the programme. In settlements with fewer than 5,000 inhabitants, the number of transactions was already showing a declining trend in the second quarter of 2019. However, the housing market in the settlements eligible for the Rural HPS picked up substantially in the quarter following the announcement of the subsidy, available from 1 July 2019. The number of transactions in the municipalities not eligible for the programme declined by 10.7 per cent on an annual basis in the third quarter of 2019, while in the eligible settlements the number and volume of transactions exceeded the year-on-year figure by 8.5 and 32.5 per cent, respectively. The increase in the number of transactions was linked to homes of 70 square metres or more. Although the decline in housing market activity also affected the settlements supported by the Rural HPS, the programme presumably contributed to the fact that the decline in the eligible settlements was smaller than in the non-eligible settlements (Chart 29).

House prices in the municipalities eligible for the Rural HPS rose to a larger degree from 2014. In the longer run, municipalities not eligible for the Rural HPS registered a substantially larger price increase than in eligible settlements (Chart 30). Between the end of 2013 and the second quarter of 2020, non-eligible settlements registered a price increase of 98 per cent, while in the settlements eligible for the subsidy (where the number of inhabitants decreased until the introduction of the subsidy) prices only rose by 59 per cent. Partly due to the subsidy, the number of inhabitants has started to grow again in eligible settlements. In the second quarter of 2020, house prices in municipalities eligible for the Rural HPS were up by 14.9 per cent, while non-eligible municipalities registered a smaller price increase of 8.1 per cent. The greater increase in house prices may have been attributable to the fact that the volume of the new Rural HPS contracts in the second quarter of 2020 did not decline, contrary to the other HPS schemes.

Box 2
Details of announced measures aimed at first-time homebuyers and their impacts on the housing market

In October 2020, the Government announced a number measures supporting families in starting a home and promoting economic growth. In this box we review the measures based on the information known at the time this report was prepared, and examine their potential impacts on the domestic housing market. Details of the announcements:

- Based on the bill put forward to the Parliament, from 1 January 2021 a preferential VAT rate of 5 per cent may be applied for newly built residential properties until 31 December 2026, provided that the final construction permit is issued by 31 December 2022, or the construction activity subject to simple registration is registered by 31 December 2022 at the latest. Following the designation of the brownfield promotional areas, the VAT rate applicable for homes sold in these areas will also be 5 per cent, without any time limit.

  – The VAT cut does not apply to flats with a useful floor area over 150 square metres and houses larger than 300 square metres, as used to be the case in the previous preferential period of 2016-2019.

- Based on the bill put forward to the Parliament, from January 2021 those purchasing new or used property with a home purchase subsidy (HPS) will be exempt from the duty.

- According to the Government's announcement, those purchasing newly built property relying on the HPS for families may also reclaim the reduced 5 per cent VAT content from January 2021. In the context of homes built under the general, higher VAT rate, all this represents savings of 27 per cent, corresponding to the full previous VAT rate, if house prices do not rise.

- The Government is launching a home improvement programme from 1 January 2021: the state will assume half of the home improvement costs of families with at least one child, up to HUF 3 million. This relief may be applied for by families with at least one child below the age of 18.

- The Government, supporting the creation of multigenerational homes, is also making the HPS available for loft conversions of family houses.

Demand side effects

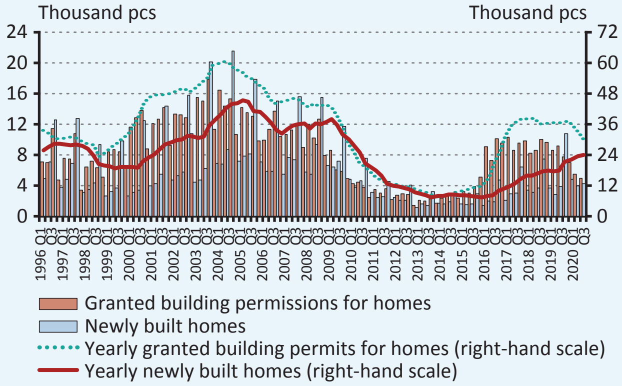
In the coming years, the new allowances mean demand for newly built residential properties may increase significantly, which on the whole will have an upwards effect on prices. However, increased demand may appear after the measures start on 1 January 2021; until then, the housing market may adopt a wait-and-see policy. According to the experts of LITT, confirming this, home purchase activity in the fourth quarter may slow on the whole. In a few years' time, due to the gradual phasing out of new homes with 5 per cent VAT, speculative brought-forward demand for homes still eligible for the preferential VAT may also appear. In the third quarter of 2020, 43 per cent of the homes for sale in Budapest, i.e. 2,700 new homes, were subject to VAT at 27 per cent. In the case of these homes the gross purchase price may decline, while for new homes already sold that are under development, the VAT content of the yet unpaid instalment may also decline depending on the gross price stipulated in the contract. The exemption from the duty of buyers relying on the HPS when purchasing used homes may also stimulate the market of used homes.

Impact of the announcement on the supply side

As a result of the general VAT relief announced, additional new home developments are likely to appear until the end of 2026, thereby increasing the renewal rate of the housing stock. However, to be eligible for the preferential VAT, the final construction permit must be obtained by 31 December 2022; accordingly, the land acquisition, planning and licensing capacities of the next two years will determine the number of additional new homes that may be built until the end of 2026 under the lower VAT rate. The members of LITT believe that the 2-year period allowed to use the relief does not ensure stable, continuous and sustainable development activity, but rather it creates turbulent circumstances in the housing market. In addition to the foregoing, the support for home improvement contributes to renewal by improving the quality of the stock of dwellings. On the other hand, the permanent maintenance of the relief in brownfield areas, contrary to the temporary relief, may support the maintenance of home construction at a higher level in the longer run too in the urban environment.

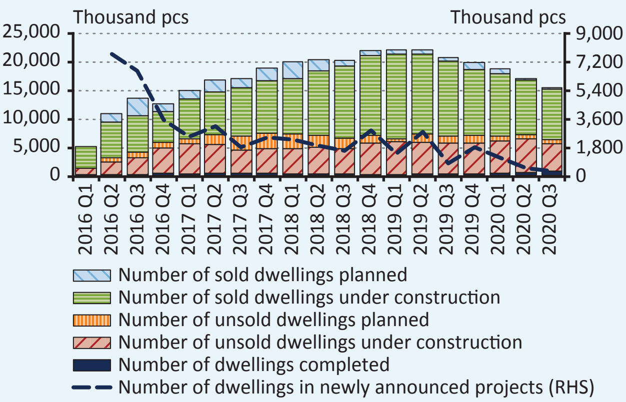
The temporary general VAT relief, in addition to its positive impacts, will increase demand for construction capacity in the coming years. The concentrated use of capacities may once again lead to delays in completion and to a rise in costs (labour force, material), which may also jeopardise the quality of construction. Conversely, a prolonged validity period for the preferential VAT on housing may be able to support the development of new construction capacities, which could reduce the sector's cyclical capacity shortages and the reliance on imports as well. In the next two years – since the final construction permit must be issued by 31 December 2022 – licensing and control works may face a significant administrative burden.

Chart 31
Number of issued building permits and number of new completions



Source: HCSO.

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



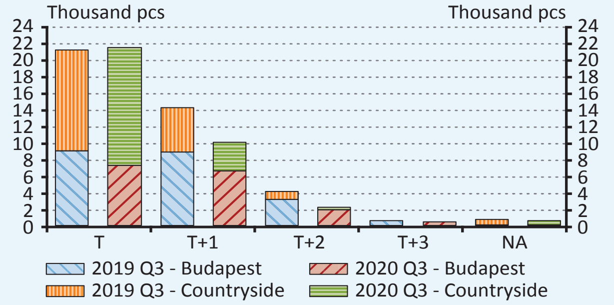
Note: Based on projects for more than 4 new homes in Budapest.
Source: ELTINGA – Housing Report.

3.2 SUPPLY OF NEW HOMES

In Budapest, the number of issued building permits declined by 84 per cent in the third quarter year-on-year. In the first three quarters of 2020, construction permits were issued for 17,300 homes in Hungary, which is just 63 per cent of the homes licensed in the same period of the previous year (Chart 31). As regards the composition of building permits by settlement type, the largest decline was registered in Budapest and in the towns of county rank, a 45 and a 46 per cent fall, respectively, compared to the first three quarters of 2019. Considering the third quarter alone, issued building permits declined by 84 per cent year-on-year in Budapest. From January to September 2020, 12,900 homes were built nationwide, representing growth of 25 per cent year-on-year. The number of homes constructed rose to the largest degree (by 48 per cent) in other towns, but the towns of country rank also registered high growth of 34 per cent. The record year in respect of domestic home construction was 2019; accordingly, the renewal rate of housing stock rose, but in a regional comparison Hungary's ranking did not improve in the regional renewal rate ranking: the annual renewal rate of the Hungarian housing stock is lower than that of Poland, Austria, Slovakia, the Czech Republic and Romania.

Development activity significantly decreased following the return of VAT on new homes to 27 per cent, the absence of details in the brownfield regulation and the coronavirus. In Budapest, the number of homes under development (construction or planning) and already for sale has been continuously decreasing since the second quarter of 2019: from 21,900 homes registered in June 2019, it declined by 33 per cent, to 14,700, by the third quarter of 2020

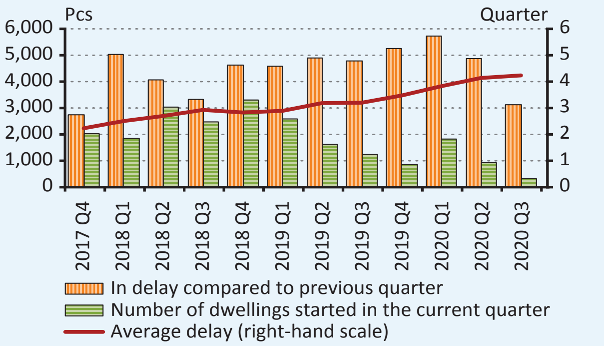
Chart 33
Distribution of new homes under sale, construction or planning in Budapest and in the countryside by the expected completion date relative to the current year



Note: Based on new housing projects for more than 4 homes in Budapest, and more than 10 homes in the provinces. Based on data for 2019 and 2020 Q3.

Source: ELTINGA – Housing Report.

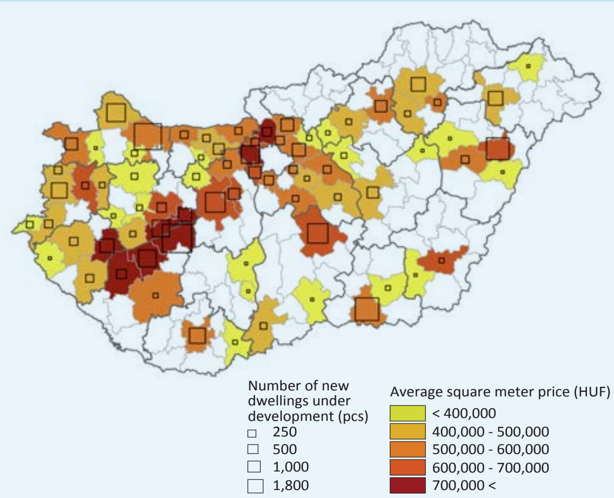
Chart 34
Number of homes involved in constructions commenced in the respective quarter and in delayed projects, and average delay in Budapest



Note: Based on projects for more than 4 new homes in Budapest.

Source: ELTINGA – Housing Report.

Chart 35
Number and average square metre price of new homes under development in Hungary



Note: Based on data for 2020 Q3. Based on projects for more than 10 new homes in Budapest.

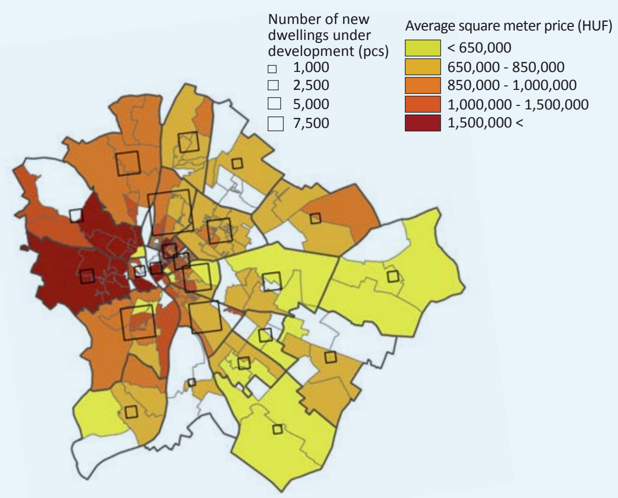
Source: ELTINGA – Housing Report.

(Chart 32). Within these developments, the volume of homes in the design phase, where the building has not yet commenced, is continuously decreasing. In the third quarter of 2020, the number of unsold homes in Budapest declined to 5,600, compared to the 6,500-7,000 unsold homes in the previous one-year period. In the third quarter of 2020, a mere 287 new homes were put up for sale, which is one-tenth of the average quarterly number of new homes announced in 2016-2019. The fall in the number of newly launched projects was attributable to the declining demand caused by the coronavirus, the higher VAT rate from the beginning of this year and the wait-and-see position linked to the publication of the regulation related to brownfield home developments.

Looking ahead, developers plan to complete 15 per cent fewer homes than a year ago. Not considering housing developments comprising 10 or fewer homes, in the third quarter of 2020 investors planned to complete 21,700 new condominium homes in total in 2020 (Chart 33). This exceeds the volume constructed in Hungary in 2019 by five hundred homes, including the construction of family homes. However, based on construction project data, developers plan to complete only 10,200 homes in 2021, which falls short of the 2020 plan by 63 per cent. The data shows that looking ahead, developers' plans in 2020 already indicated a greater decline in activity than a year ago. While in the third quarter of 2019 investors still planned to complete 41,200 new homes in the coming years, in the same period of 2020 plans for a similar horizon calculated with only 35,000 homes. In 2020, the expected volume of new homes to be completed in Budapest is half of the total volume in other parts of the country; however, the plans for 2021 already project the completion of almost twice as many homes in Budapest than in the countryside in total.

The number of delayed housing developments decreased in 2020, but the average delay increased due to the projects interrupted for a longer time. The quarterly number of home constructions commenced in Budapest gradually decreased in 2019, and this continued in 2020, apart from the outlier in the first quarter. In the first quarter of 2020 the construction of 1,801 new homes commenced in Budapest; but the figure for the second quarter declined once again (903 homes) and in the third quarter the construction of just 305 homes commenced (Chart 34). Parallel to this, the number of homes completed with a delay also shows a declining trend: while in the first quarter the construction of 5,678 homes was late quarter on quarter, in the third quarter only 3,087 homes were delayed. The fall in the number of delays is partly attributable to the fact that the availability of construction capacities has improved in past quarters. However, the

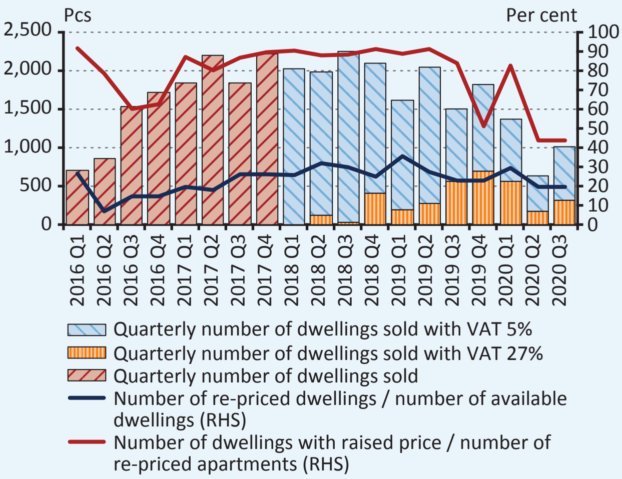
Chart 36
Number and average square metre price of new homes under development in Budapest



Note: Based on data for 2020 Q3. Based on projects for more than 4 new homes in Budapest.

Source: ELTINGA – Housing Report.

Chart 37
Number of new homes sold in Budapest, and ratio of repricing within the advertised new homes



Note: Based on projects for more than 4 new homes in Budapest.

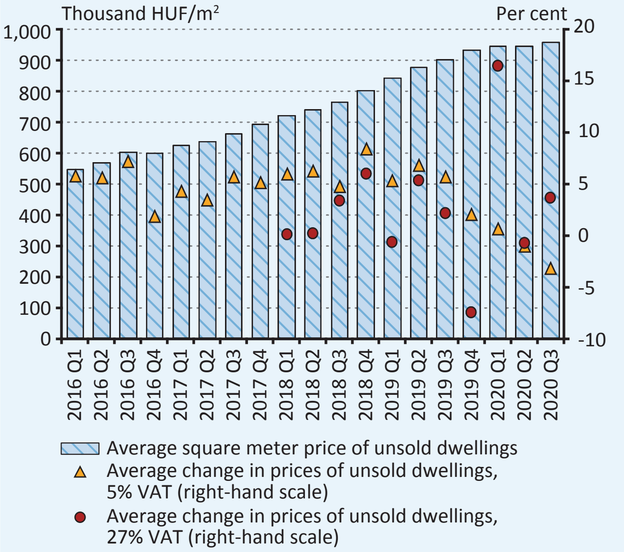
Source: ELTINGA – Housing Report, ELTINGA – Building Permit Monitor.

decline in the number of delayed housing developments was accompanied by an increase in the average delay time. This implies that delayed projects are dominated by developments that came to a halt for a longer time, where the delay is presumably attributable to factors other than a shortage of capacity.

Domestic new home condominium developments are still concentrated in the parts of the country where economic prospects and conditions for tourism are more favourable. The new home condominium projects in Hungary appear in larger numbers mostly in Budapest, and in the central and northern parts of Transdanubia. Outside the capital, there are approximately 16,600 new homes in projects that are either in the sale, planning or construction phases, or have already been completed. Of that stock, 15.1 per cent is located in Somogy, 14.9 per cent in Győr-Moson-Sopron, and 14.2 per cent in Pest county (Chart 35). The lowest number of new homes under development is located in Tolna, Békés and Heves counties, with 0, 18 and 290 homes, respectively. 25.7 per cent of the new condominium homes in the countryside are located near Lake Balaton, 14.2 per cent around Budapest, and a further 49 per cent in the county seats and towns of county rank. Accordingly, 89 per cent of the new homes outside Budapest are being built in areas characterised with more favourable macroeconomic fundamentals. The asking price of the homes being built in Somogy and Veszprém counties – primarily due to the developments close to Lake Balaton – is substantially higher compared to the prices in other counties, with an average asking price of HUF 945,000 and HUF 879,000 per square metre, respectively. In Győr-Moson-Sopron, Pest and Hajdú-Bihar counties, where the majority of new homes in the countryside are located, the average price per square metre is HUF 511,000, HUF 630,000 and HUF 643,000, respectively. Compared to the prices of new homes in the countryside, the square metre prices are significantly higher in Budapest: in the third quarter of 2020, the average square metre price was HUF 2.3 million in District V, HUF 1.98 million in District XII and over HUF 1.5 million in Districts I, II and VI (Chart 36). In the entire market of new homes in Budapest the average asking price is HUF 958,000 per square metre.

The declining trend in the sales of new homes in Budapest in 2020 may be reversed by the family policy measures effective from 2021. In the first three quarters of 2020 some 3,000 new homes were sold in Budapest, which represents a decrease of 41 per cent compared to 5,100 homes sold in the same period of 2019. The number of new homes sold was the lowest in the second quarter, during the restrictive measures implemented to prevent the spread of the coronavirus, when merely 632 new homes were sold (Chart 37). This is 36.5 per cent of the average quarterly

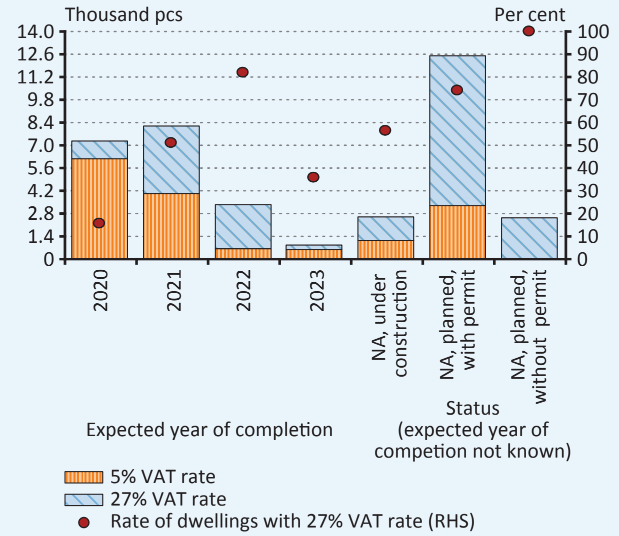
Chart 38
Average square metre price of the new home supply in Budapest and price changes by VAT rate



Note: Based on vacant, unsold homes in projects for more than 4 new homes.

Source: ELTINGA – Housing Report.

Chart 39
Distribution of new homes under development and preparation in Budapest by the relevant VAT rate and the planned year of completion



Note: The VAT rate applicable at the time of sale relates to instalments paid after 31 December 2019. Based on data for 2020 Q3.

Source: ELTINGA – Building Permit Monitor.

sales in 2019. In the third quarter one thousand new homes were sold in Budapest, which is a decline of 33 per cent on an annual basis. 68 per cent of the homes sold during the quarter were still sold at the preferential VAT rate of 5 per cent. However, over the short term the uncertainty caused by the coronavirus pandemic curbs sales and as a result of the family policy allowances announced in autumn 2020 and entering into force from 1 January 2021, sales and purchases are being postponed from 2020 to next year. In the second and third quarters of 2020 the repricing ratio of the supply of new homes decreased to 20 per cent, and within the repriced stock the ratio of homes getting more expensive fell to 44 per cent. In the third quarter of 2020 the VAT rate of 27 per cent applied to 42.7 per cent of the unsold homes, which is a rise of 7.4 per cent quarter-on-quarter.

In 2020 the number of homes sold at a VAT rate of 27 per cent increased, but gross prices may decline from 2021. In the third quarter of 2020, the average square metre price of the unsold new homes in Budapest rose to HUF 958,000, which corresponds to growth of 6.3 per cent by annual comparison (Chart 38). The prices of the repriced new homes in Budapest decreased on average in the second and third quarter of 2020, by 1 per cent in the first quarter and by half a per cent in the second quarter. The prices of homes to be sold at a VAT rate of 27 per cent, following the increase in the first quarter, declined on average by 0.9 per cent in the second quarter, followed by an increase of 3.6 per cent in the third quarter. The gross prices of these homes will be reduced by the preferential VAT rate on housing coming back into force in 2021. The prices of unsold flats with a VAT rate of 5 per cent fell both in the second and third quarters, by 1.1 and 3.3 per cent, respectively.

The reintroduction of the 5 per cent VAT from 2021 may reduce the price of more than 20,000 new homes. In the third quarter of 2020 the number of new homes under development and preparation in Budapest was 37,300 (Chart 39). Of this volume 22,300 homes (60 per cent) are under construction or have an announced completion date. When examining the housing projects based on the VAT rate applicable to the sales of homes, in 2020 the 27 per cent VAT rate applies to 58 per cent, i.e. 21,500 homes, of the new homes in Budapest under development or preparation. The gross price of roughly this volume of homes will be reduced in the coming years through the announced family policy measures. In addition to the prices of the as yet unsold homes, the preferential VAT rate may also reduce the gross purchase price in respect of the purchase price instalments payable from 2021 under the already concluded contracts, depending on the type of the price (gross or net) specified in the contract.

Box 3

Condominium manager questionnaire on the condition of properties and on planned and implemented improvements

In the summer of 2020, the Magyar Nemzeti Bank conducted a questionnaire-based survey among domestic condominium managers in cooperation with the National Association of Condominiums and Condominium Managers (Társasházak és Társasházkezelők Országos Egyesülete -TTOE), Condominium Households (Társasházi Háztartás - THT) and eHáz. The purpose of the questionnaire was to assess the technical condition of the domestic condominiums and improvements already implemented or planned for the future, with special regard to the funding of improvements and surveying the factors hindering improvement. The respondent condominium managers completed the questionnaire between July and October 2020.

A total of 1,070 condominiums participated in the survey, comprising 73,862 homes. This accounts for roughly 4.3 per cent of the Hungarian condominium stock of dwellings. Based on the number of homes, 59 per cent of the respondent condominiums are located in Budapest. There is a strong concentration in terms of breakdown by district, as half of the homes are located in 4 districts. The largest share is represented by District III, where 22 per cent of the homes are located. Homes in District XIII are also included in the survey in large numbers, since many panel-block housing estates have been built in these suburban parts of Budapest.

12 per cent of the condominiums included in the survey were built before 1946; 70 per cent of these buildings are in need of minor or major improvements. In the reconstruction period after World War II until the 1960s, the number of homes built in Hungary was low; the condominiums built in this period account for 4 per cent of the sample, and two-thirds of them are also in need of improvement. 41 per cent of the condominiums were built in the 15-year home construction programme commencing from 1960, while 35 per cent of them were built in the years after, until the political transition. The condition of 44 per cent of the stock, mainly comprising panel flats, is worse than the average; these flats in need of improvement, built between 1960 and 1990, account for 34 per cent of the stock of dwellings included in the questionnaire. 6 per cent of the homes included in the survey were built from the 1990s until the outbreak of the 2008 crisis, while 1 per cent of them were built from the recession to the present day; the majority of the latter are in good condition.

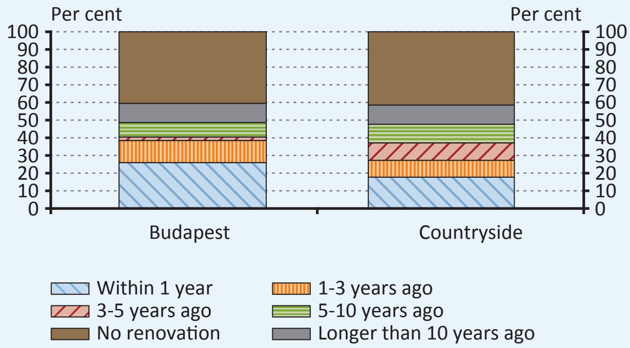
Distribution of condominiums by year of completion and current condition

	In need of major improvement	In need of minor improvement	Average	Good	New	Total
Before 1918	5%	1%	0%	1%	0%	**7%**
1919-1945	2%	0%	1%	1%	0%	**5%**
1946-1960	2%	0%	1%	0%	0%	**4%**
1961-1975	15%	4%	6%	13%	4%	**41%**
1976-1990	11%	5%	7%	10%	3%	**35%**
1991-2008	1%	2%	1%	1%	1%	**6%**
2009-2020	0%	0%	0%	1%	0%	**1%**
Total	**36%**	**12%**	**16%**	**27%**	**9%**	**100%**

Source: MNB, TTOE, THT, eHáz – Condominium manager survey.

The energy efficiency of condominiums is heavily influenced by the type of the heating system used. The largest group of the respondent condominiums (roughly 35 per cent) has district heating with individual metering. The three most frequent heating systems also include heating with gas and district heating without individual metering, at 31 and 22 per cent of the condominiums, respectively. Heating with the use of renewable energy is available at only 1 per cent of them. Based on the survey, the heating and other public utility systems at the condominiums are typically obsolete; at half of the condominiums no improvement has been made in the past 5 years, although this would be necessary. At another one-third there have been improvements, but this was not sufficient to ensure the good condition of all public utility systems; only 17 per cent of them stated that those were in good condition.

Time of the latest refurbishment of condominiums



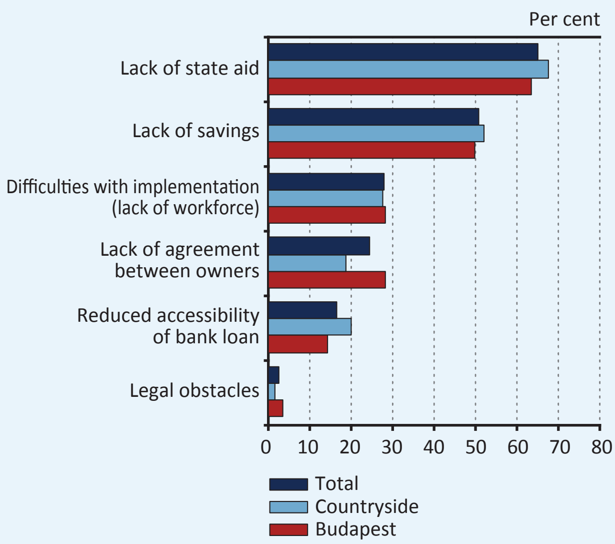
MNB, TTOE, THT, eHáz – Condominium manager survey.

Relying on the questionnaire, we also surveyed the typical types of modernisation, improvement and preservation works implemented in previous years or currently in progress. The most frequent improvement performed by condominiums included the heat insulation and/or damp proofing of flat roofs, which was performed by 18 per cent of them during their last improvement. This was followed by the replacement of doors and windows, indicated by 16 per cent of them; priorities at most of the condominiums included painting internal parts of the buildings, façade heat insulation and modernising the elevators. Improvement works have been performed in the past 3 years at 39 per cent of the condominiums located in Budapest, and at only 27 per cent of those located in the countryside. 82 per cent of the improvements carried out in the capital last year took place without state or local government funding. This ratio in the countryside was 92 per cent. In the case of improvements implemented earlier, but within the past 3 years, the ratio of non-subsidised improvements was only 43 per cent in Budapest. Almost half of the condominiums were able to draw on state aid up to 50 per cent of the costs. By contrast, in the countryside, 81 per cent of them had to rely on own or third-party funding.

The respondent condominiums have a strong desire to carry out improvements. 31 per cent of the condominiums are planning improvements in 2020, and 83.4 per cent of them in the next three years. The average value of the planned improvements is HUF 53 million, which is typically higher – HUF 64-77 million – for buildings constructed between 1960 and 1990, and about HUF 14-15 million for the houses built in the past three decades. However, only 18 per cent of the condominiums have the full amount necessary for the improvements; 26 per cent of them would apply for a bank loan, while 57 per cent of them would like to use state or municipal aid.

As regards the technical content of the planned improvements, the most frequent objectives include the renovation of the water and sewage system, the overhaul of the electricity system, façade heat insulation and the painting of internal parts of the building. 13 per cent of the respondents plan to introduce the utilisation of renewable energy resources in the next 1-2 years. The respondent condominium managers emphasised the absence of state aid to the largest degree, 66 per cent, as a factor hindering the implementation of improvements. Lack of savings was mentioned as the second most important factor, indicated by 51 per cent of the respondents. In addition, construction difficulties and the lack of the owner's agreement were mentioned by 28 and 25 per cent of the condominiums, respectively, as factors hindering improvements.

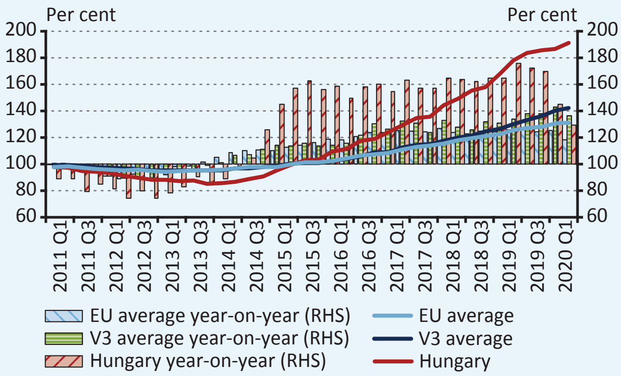
What are the factors that hinder renovation works?



Source: MNB, TTOE, THT, eHáz – Condominium manager survey.

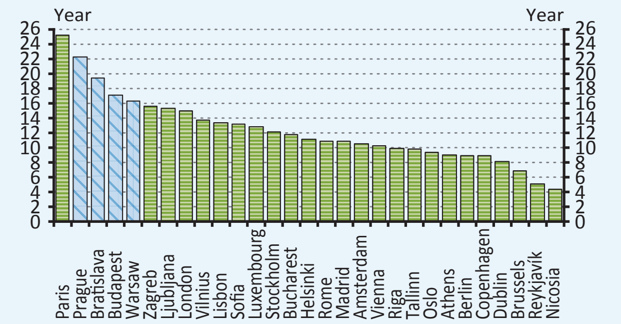
The coronavirus pandemic had a negative impact on the finances of condominiums too. 33 per cent of the condominiums replied that improvements had to be postponed in part or in full due to the coronavirus pandemic; shops operating in condominiums closed, at least temporarily, at 24 per cent of them, and at 40 per cent of them the payment of the common costs generated difficulties for the tenants.

Chart 40
Nominal house price developments in Europe (average of 2015 = 100%)



Source: Eurostat, MNB.

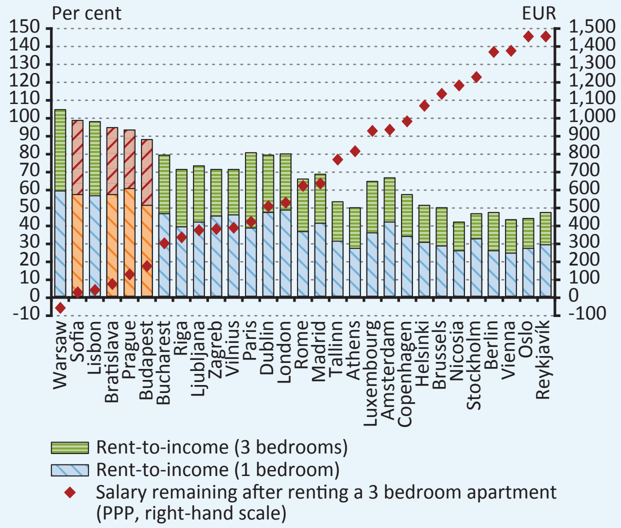
Chart 41
Price-to-income ratios in European capitals (2020 Q4)



Note: The price-to-income ratio is the ratio of the average house prices to the national average wage. Capitals of the Visegrad countries are marked with a different colour. Calculations based on 75 square metre homes.

Source: Eurostat, numbeo.com.

Chart 42
Rent-to-income ratio in European capitals



Note: The remaining income is the disposable amount after paying the rent for a 3-room median sublease, calculated at purchasing power parity. Capitals of the Visegrad countries are marked with a different colour.

Source: Eurostat, numbeo.com

3.3 INTERNATIONAL OUTLOOK ON HOUSING MARKET TRENDS

In the second quarter of 2020, Hungarian annual house price dynamics fell below the regional average. In the second quarter of 2020, the aggregate housing market price index of the EU Member States amounted to 132 per cent of the 2015 price level, while the house price index in the Visegrad countries was 143 per cent, i.e. property prices in the EU and in the Visegrad countries rose on average by 32 and 43 per cent, respectively, in the past five and a half years. In the housing market cycle commencing in 2014, Hungary had a more dynamic increase in house prices compared to both Europe and the narrower region, where prices almost doubled in the period under review. However, in the past quarters, the quarterly increase in house prices has already started to slow in Hungary, as a result of which the annual house price dynamics also fell below the regional average in the second quarter of 2020 (Chart 40).

Based on the ratio of house prices in Budapest to national earnings, Budapest is among the more expensive capitals in Europe. Of all the European capitals, it is the most difficult to buy property on the average national income in Paris. In France, a person with an average income can buy a property of 75 square metres at the average price level in the capital on roughly 25 years' income (Chart 41). Budapest is the fourth least affordable capital in Europe; a property of 75 square metres in the capital may be bought on the average income of 17 years. Of the capitals of the other Visegrad countries, properties are the least affordable in Prague. Currently, in terms of housing affordability, the situation appears to be most favourable in Nicosia, Reykjavik and Brussels within Europe. In the capitals of Cyprus, Iceland and Belgium, less than 7 years of income on average is sufficient to buy a residential property.

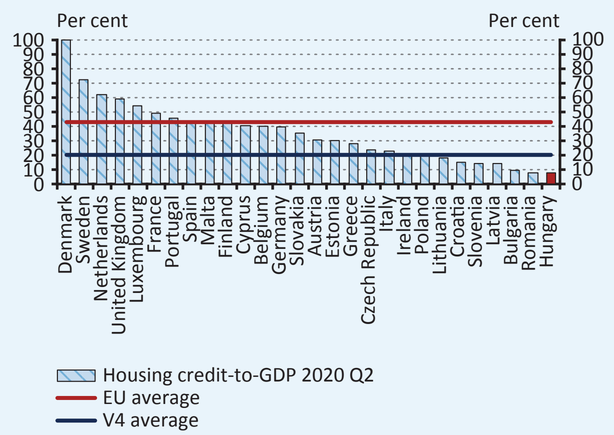
The problem of housing affordability can also be observed in the Budapest rental market. As a percentage of net income, rents in Budapest are currently the sixth highest among European capitals. In Budapest the average rent for a typical 3-bedroom home is 87.5 per cent of the average net wage in Hungary (Chart 42). The value of this indicator is even higher in the rest of the Visegrad countries: 104.0 per cent in Warsaw, 94.2 per cent in Bratislava and 92.5 per cent in Prague. We get a similar picture on housing affordability when examining the disposable income at purchasing power parity remaining at the respective tenant after paying the typical rent for a three-bedroom flat from an average wage. The Visegrad countries are among the countries in a less favourable situation in this comparison as well. This shown by the fact that while in Budapest only EUR 170 disposable income, calculated at purchasing power parity, remains after paying the rent for a 3-bedroom flat, in the capitals of Iceland, Norway and Austria this amount exceeds EUR 1,300.

4 Features of the residential mortgage loan market

Due to the coronavirus pandemic, the volume of housing loan contracts concluded by credit institutions declined by annual comparison. In addition, outstanding domestic housing loans as a percentage of GDP were the lowest in the EU at the end of the second quarter of 2020, and thus there is still plenty of room for the deepening of residential mortgage loans. During the first half of 2020, the average amount and maturity of housing loans increased further, and within housing transactions there was also a rise in the ratio of buyers purchasing on credit. In the second quarter of 2020, practically all housing loan contracts were concluded with interest rate fixation of at least 5 years, while three-quarters of the contracts had an interest rate fixation of ten years or until maturity, which provides borrowers with predictable instalments in the long run.

The banks participating in the Lending Survey tightened the conditions of housing loans after the onset of the pandemic, citing the change in economic prospects and clients' creditworthiness. Among other things, the tightening involved raising the expected minimum income levels, which, however, had no major squeezing effect on new disbursements, since housing loans are typically applied for by clients with higher incomes and good debtor ratings. On the other hand, 16 per cent of banks, in net terms, projected an easing for the second half of the year, while half of the institutions also expect a pick-up in demand for housing loans. Prenatal baby support loans, accounting for 11 per cent of the outstanding household debt, generally serve housing purposes: based on the data of the questionnaire-based survey, three-quarters of the prenatal baby support loan borrowers finance some sort of housing objective from the loans. In addition, more than one third of the borrowers supplement the prenatal baby support loan with another bank loan or HPS to realise their goals. Thus, the existing subsidies provide material support for lending for housing purposes.

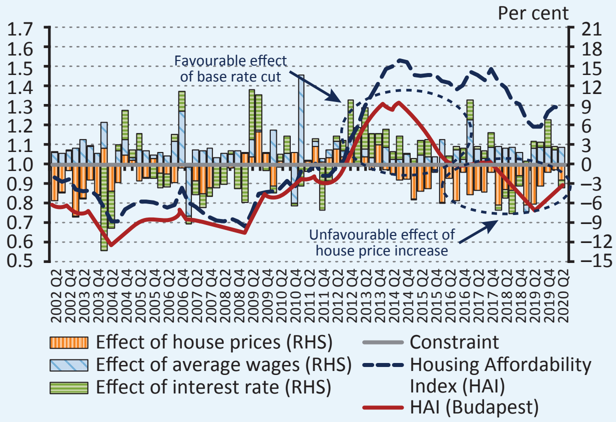
Chart 43
Housing credit-to-GDP in European comparison



Source: ECB.

The volume of outstanding housing loans in Hungary as a percentage of GDP is the lowest in the European Union. At the end of the second quarter of 2020, the volume of outstanding housing loans in Hungary came close to HUF 3,800 billion, which only amounts to 7.7 per cent of GDP though. As a result, in a European comparison, lending for housing purposes is the lowest in Hungary as a percentage of GDP, falling substantially short of even the average of the V4 countries of 21 per cent (Chart 43). Based on Eurostat data related to the housing status, merely 15 per cent of home owners in Hungary pay mortgage loan instalments while the EU average is 27 per cent. Consequently, there is still major room for residential mortgage lending.

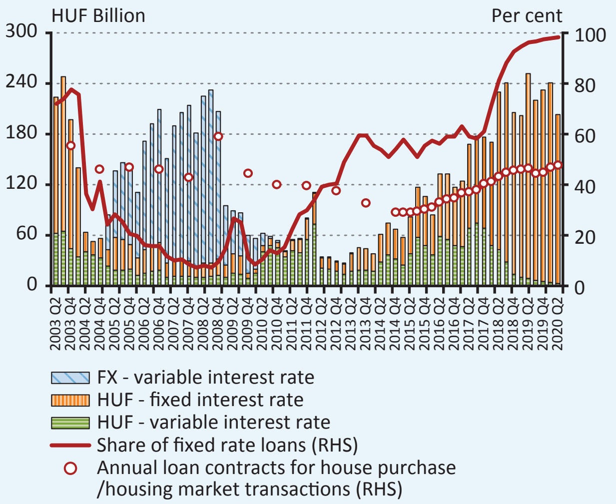
Chart 44
Housing Affordability Index (HAI)



Note: The HAI shows the number of times the income of a household with two average earnings covers the income required for the financed purchase of an average home of 65 square metres. Parameters of the loan product, except for the interest rate, are constant until maturity. LTV = 70 per cent, PTI = 30 per cent, maturity = 15 years.

Source: MNB.

Chart 45
Volume of new housing loans by interest rate fixation and denomination



Note: Fixed rate loans indicate loans with more than 1-year interest rate fixation.

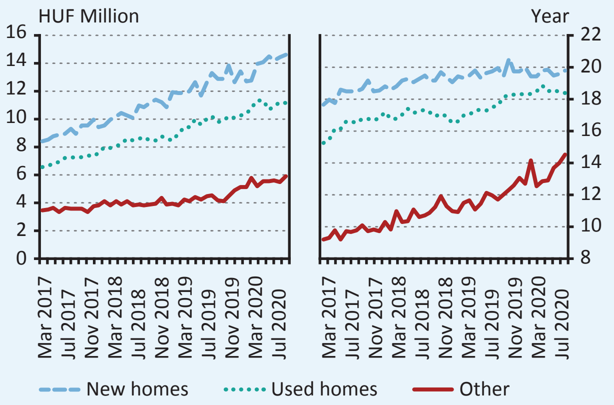
Source: MNB.

Based on the HAI index, in the past year the affordability of house purchasing on credit has improved. From the second half of 2019, dynamic growth in average wages was able to offset the decelerating growth in house prices. Furthermore, due to the decline of the annual percentage rate of charge on housing loans, the affordability of house purchases on credit gradually improved (Chart 44). However, the index does not take into consideration the impact of the tightening of non-price credit conditions and the change in the total wage bill of households. As a result of the coronavirus pandemic, the price in Budapest of an average-sized home (65 square metres) fell from HUF 45.5 million to 42.9 million in one quarter, while average wages continued to increase. As a result, the housing affordability index showed a major improvement for the second quarter of 2020 in Budapest, although it is still low compared to previous years. On the other hand, the average credit costs of housing loans rose during the quarter, accompanied by increasing house prices at national level. So based on the HAI, despite the wage increases, the affordability of house purchases on credit deteriorated slightly nationwide in the second quarter of 2020.

The ratio of home buyers on credit increased. Between the third quarter of 2019 and the second quarter of 2020, credit institutions disbursed loans of HUF 902 billion, which fell short of the disbursements registered in the previous 12 months by 18 per cent. However, the vast majority of the disbursed loans were concluded with long-term interest rate fixations, and thus their interest rate risk is moderate. 45 per cent of the housing transactions concluded in the second half of 2019 were achieved with borrowing. In 2020 this ratio rose to 48 per cent (Chart 45). One fifth of the housing loan contracts concluded in the second quarter of 2020 were for the construction or purchase of new housing, while almost 70 per cent were requested for the purchase of used homes.

Parallel to the declining volume of new contracts, the average amount of housing loans increased further. Until August 2020, inclusive, households concluded 9,000 fewer housing loan contracts year-on-year due to the pandemic situation. At the same time, the growth in the average loan

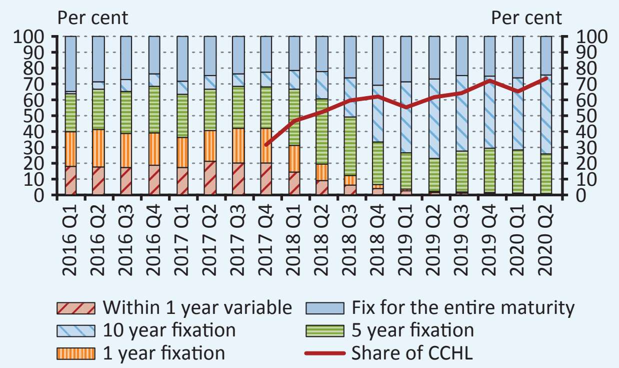
Chart 46
Average contract size and maturity of new housing loans



Note: Maturities are averages weighted by the contracted amount.

Source: MNB.

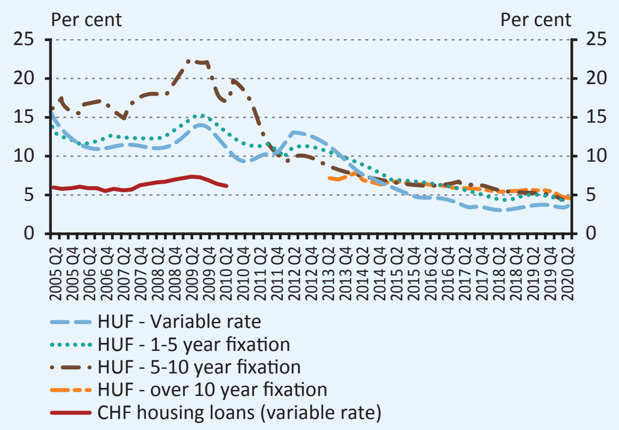
Chart 47
Distribution of housing loan disbursements by interest rate period



Note: Share of CCHL products compared to new issues with at least 3 years of interest rate fixation (at least 5 years since 2018 Q4) excluding disbursements by building societies.

Source: MNB.

Chart 48
APR of new housing loans



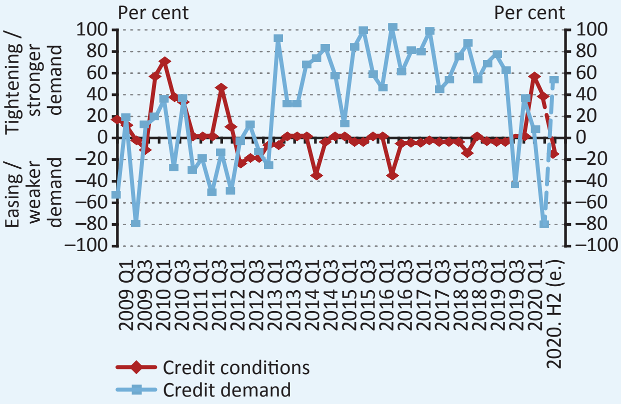
Source: MNB.

amount for the various housing purposes increased: for the construction and purchase of new housing the average loan amount applied for was HUF 14.5 million, while for the purchase of used homes it was HUF 11 million. In August, the average amount of contracts concluded for other purposes, including improvements and expansions, was HUF 6 million, which represents annual growth of almost 2 million (Chart 46). Despite the increasing loan amount, the average maturity in the case of newly built homes has been stagnating in the past one year and these loans are still characterised by an average maturity of almost 20 years. Those buying used homes on credit should calculate with an average debt servicing of over 18 years, while the maturity of loans for other purposes reached 14 years and 6 months in August, thereby the average maturity increased by almost 3 years within one year.

Housing loans are characterised by predictable instalments over the long run. In the first half of 2020, the ratio of housing loans with short-term interest rate fixation declined further within new disbursements. By June, the ratio of contracts concluded with an interest period up to one year fell below one per cent. In the second quarter of 2020, every fourth home loan contract was concluded with an interest rate fixation of 5 years, while the interest rate of three quarters of the contracts is fixed for 10 years or until maturity, which provides borrowers with instalments predictable over the long term (Chart 47). The penetration of the Certified Consumer-Friendly Housing Loans (CCHL) made a material contribution to the decrease in interest rate risk: 73 per cent of the housing loan contracts concluded in the second quarter had CCHL certification.

The average credit cost of housing loans declined further. The average credit cost of new housing loans declined in all interest rate fixation categories year-on-year. At the end of the second quarter of 2020, the average APR level of housing loans with an interest rate fixation period of 1-5 years stood at 4.5 per cent after an annual decline of 0.5 percentage points, while the average credit cost of loans with an interest rate fixation period of 5-10 years and over 10 years, declined by 1 percentage point, and amounted to 4.2 and 4.7 per cent, respectively (Chart 48). Despite the rising funding cost resulting from the onset of the coronavirus pandemic, housing loans are available under more favourable financing conditions than a year ago.

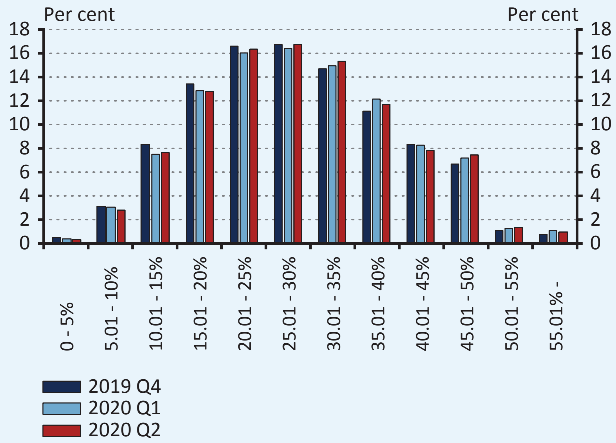
Chart 49
Changes in credit conditions and demand for housing loans



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 50
Distribution of new housing loan contracts by payment-to-income ratio



Note: Distribution based on the number of transactions.

Source: MNB.

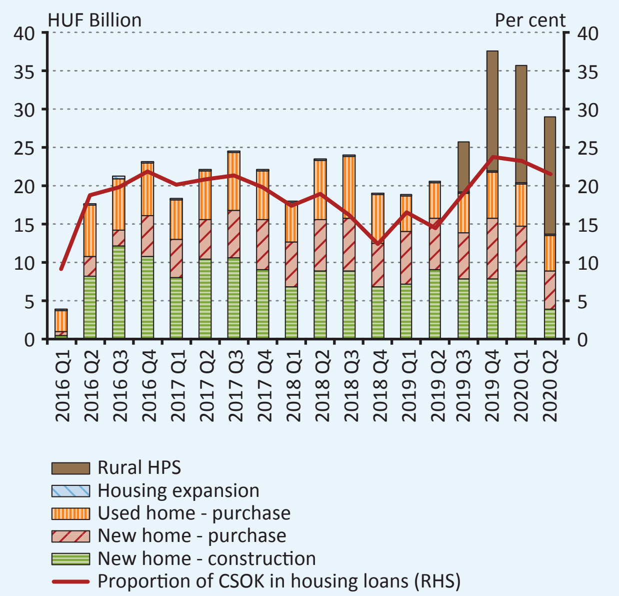
As a result of the restrictions related to the pandemic situation, demand for housing loans has temporarily declined. Based on the responses in the Lending Survey[6], half of the banks tightened the standards of housing loans in the first quarter of 2020 after the announcement of the emergency, which was followed by additional tightening in the second quarter at 37 per cent of the institutions in net terms (Chart 49). Citing the change in economic prospects and clients' creditworthiness, banks primarily tightened the scoring system. At the same time, 16 per cent of banks, in net terms, already held out the prospect of easing in the second half of the year to achieve their market share objectives. The restrictive measures, which mostly impacted on the second quarter, curbed not only the housing market transactions but also the related borrowing. A net 81 per cent of the respondent institutions reported declining demand on the housing loan market; however, prospects for the second half of the year are positive and half of the banks once again anticipate a pick-up in demand.

The tightening of credit conditions had no major crowding-out effect on housing loans. It is clear both from the Lending Survey and the interviews conducted with banks that a number of institutions tightened the conditions of access to credit in the household segment. Several institutions suspended lending to employees in vulnerable sectors (e.g. tourism, catering) and the prescribed minimum income levels increased in the loan assessments. However, in terms of new housing loan disbursements the tightening did not result in any major shift in the distribution of the payment-to-income ratio (PTI) and the loan-to-value ratio (LTV), since housing loans are typically taken out by clients with higher income and good debtor ratings (Chart 50). In the second quarter of 2020 some 87 per cent of housing loan borrowers had income above the median.

Within subsidised loans, the largest decline was registered in the HPS for constructions. The restrictions related to the pandemic also left their mark on the subsidised housing loans: the volume of contracts concluded under the Home Purchase Subsidy for Families scheme fell by one third year-on-year. In this quarter, households signed almost 5,000 contracts to the value of HUF 14 billion (Chart 51). The greatest decline was observed in the HPS requested for the construction of new homes, where the number and volume of contracts concluded fell by more than 50 per cent compared to the second quarter of 2019. The volume of subsidised loans for the purchase of new housing declined by 27 per cent year-on-year, while no decline was observed in loans for the purchase of used homes. One fifth of the

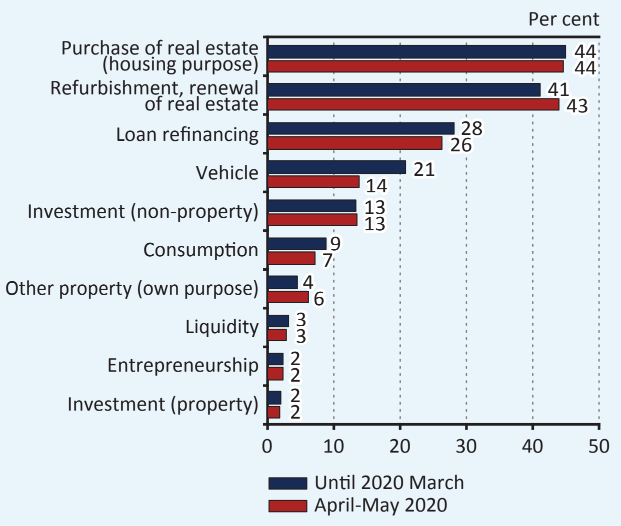
[6] For the detailed results of the Lending Survey see https://www3.mnb.hu/penzugyi-stabilitas/publikaciok-tanulmanyok/hitelezesi-felmeres

Chart 51
Volume of contracts in the Home Purchase Subsidy scheme by purpose



Source: MNB, Ministry of Finance.

Chart 52
Loan purposes of prenatal baby support loans



Note: Several answers could be indicated, and thus the sum of the frequency of loan purposes does not add up to 100 per cent.

Source: MNB Prenatal Baby Support Loan online survey.

quarterly disbursement of housing loans, roughly HUF 42 billion, was related to the Home Purchase Subsidy scheme for families, and thus the scheme provides major support for residential mortgage loans. The volume of contracts concluded under the Rural HPS, launched on 1 July 2019, reached HUF 53 billion, of which almost 3,000 contracts were concluded in the second quarter of 2020, totalling roughly HUF 15 billion, where the ratio of amounts used to improve existing homes rose from 20 per cent observed in previous quarters to 27 per cent. In addition, new Rural HPS contracts practically remained at the same level in the second quarter, as was also the case with the other types of HPS.

The drawdown of prenatal baby support loans is dominated by housing purposes. The prenatal baby support loan scheme, available since July 2019, exceeded the aggregate amount of HUF 900 billion in September, already accounting for 11 per cent of the outstanding borrowing of households. Due to the importance of the product, in an online questionnaire-based survey the MNB also examined the loan purposes of these loans, available under a state guarantee and generally amounting to HUF 10 million. The survey revealed that three-quarters of the borrowers use the loan to finance some sort of housing purpose (Chart 52). At the same time, more than one third of the borrowers supplement the prenatal baby support loan with another bank loan or HPS to realise their goals. The supplementary borrowing most often includes a housing loan, or loans and subsidies under the Home Purchase Subsidy for Families scheme. As a result of the coronavirus pandemic, this April and May the ratio of those financing home improvements and the purchase of non-residential property (e.g. arable land, plot) increased among the prenatal baby support loan borrowers.[7]

[7] For detailed information on the characteristics and main loan purposes of the borrowers of prenatal baby support loans, see Box 2 of the publication entitled Trends in Lending September 2020

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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