



MINISTRY
FOR NATIONAL ECONOMY

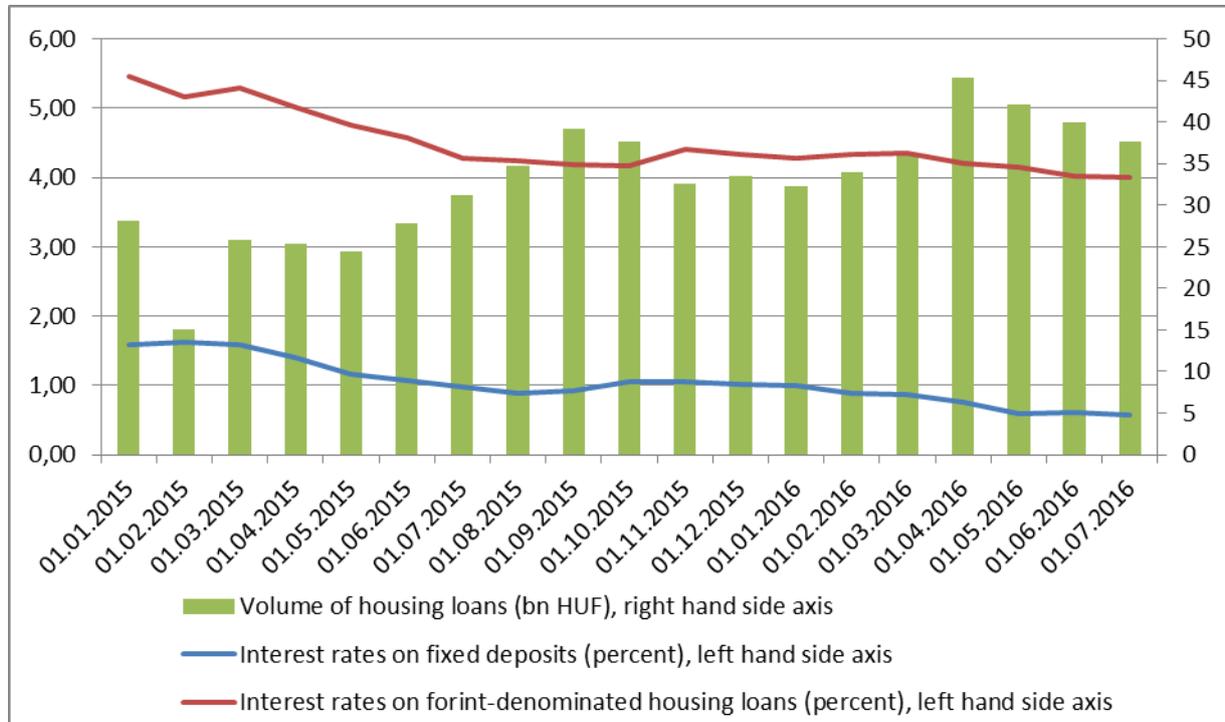
Hungary's housing market boom continues

The latest data compiled by the Hungarian Central Statistical Office (KSH), Eurostat and the National Bank of Hungary (MNB) all signal that the upward trend on the residential property market has gained further momentum. According to a recent analysis by FHB Land Credit and Mortgage Bank Company, in Q1 2016 the bank's FHB House Price Index showed growth, edging up from 199.93 to 215.06. This implies a quarter-on-quarter price increase of 7.6 percent and 8.8 percent, respectively, in nominal and real terms. It is the largest quarterly growth figure since the onset of the crisis.

Subdued inflation world-wide, that also influences the domestic capital market, is having a beneficial effect on loans. MNB data show that average interest rates payable on forint housing loans have recently declined significantly. As figure 1 reveals, **both interest rates paid for fixed bank deposits and on the first year of variable APR housing loans fell by some 1.5 percentage points. Thanks to moderating interest rates and the improving outlook, the overall stock of forint-denominated housing loans has soared.** The above factors have been driving up demand for residential property and housing loans, which in turn are pushing prices up.



Fig 1: Change in interest rates paid for fixed bank deposits and payable on housing loans; change in the volume of housing loans



Source: National Bank of Hungary (MNB)

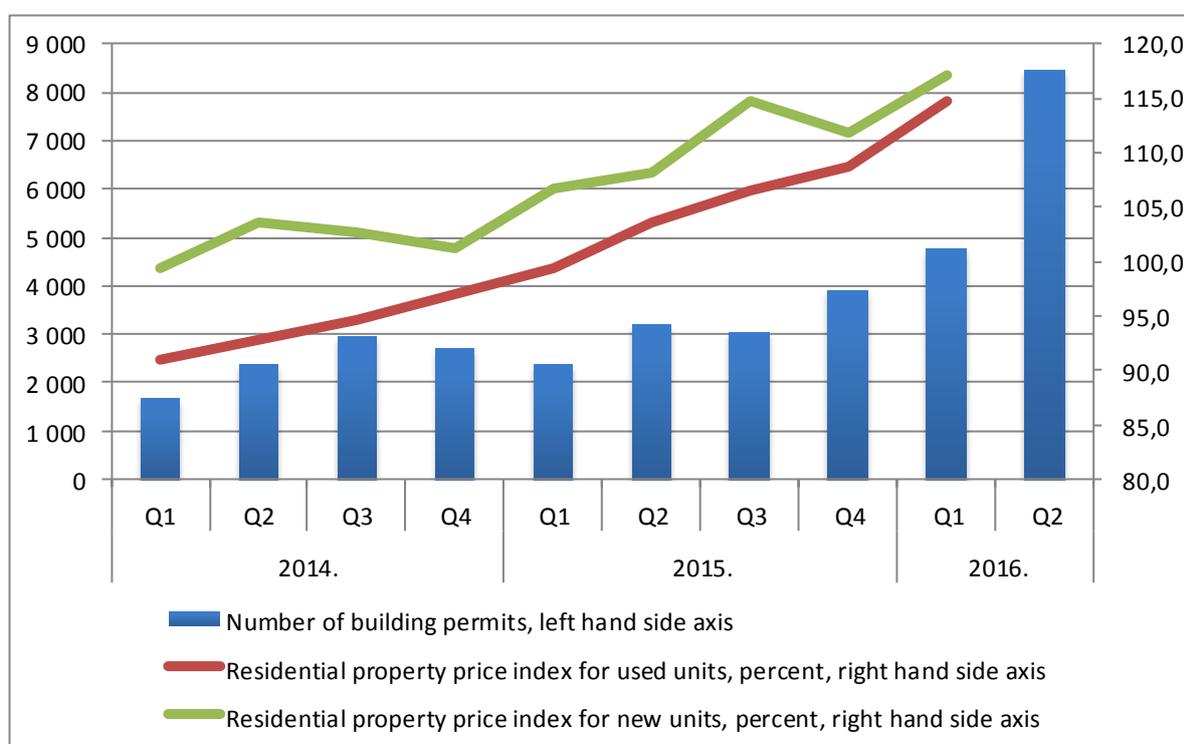
KSH statistics clearly show that the number of building permits had risen modestly after the first quarter of 2014. Figure 2 also demonstrates that this upward trend has become more pronounced since the second quarter of 2016, and the number of building permits in that period totalled 8500. These statistics are traditionally reliable forward-looking indicators of future housing trends. In Q1 2014, 44 percent of new building permits were issued in the Central Hungary region (3745 in Budapest and 2125 in Pest Country, which constitute 28 percent and 16 percent of total, respectively). These data on building permits confirm the region's leading role in the current housing boom. Central Hungary was followed by Western Hungary (with 24 percent) and Southern Transdanubia (with 9 percent of total). In the latter region, the number of permits issued actually fell compared to the previous quarter. The share of the Southern Great Plain region, on the other hand, increased to 3 percent of total.

As anywhere else in the world, property prices show huge regional differences: price growth has been marked in Budapest and in Western Hungary. In regions with low population density or

high unemployment rates prices remained subdued, demand is limited or non-existent and supply is low-quality at locations with typically poor infrastructure.

Composite quarterly price indices, adjusted for regional and other factors, show that residential property prices, both for used and new units, have been on the rise in recent years.

Fig 2: Number of building permits/residential property price indices for new and used units (2010=100%)

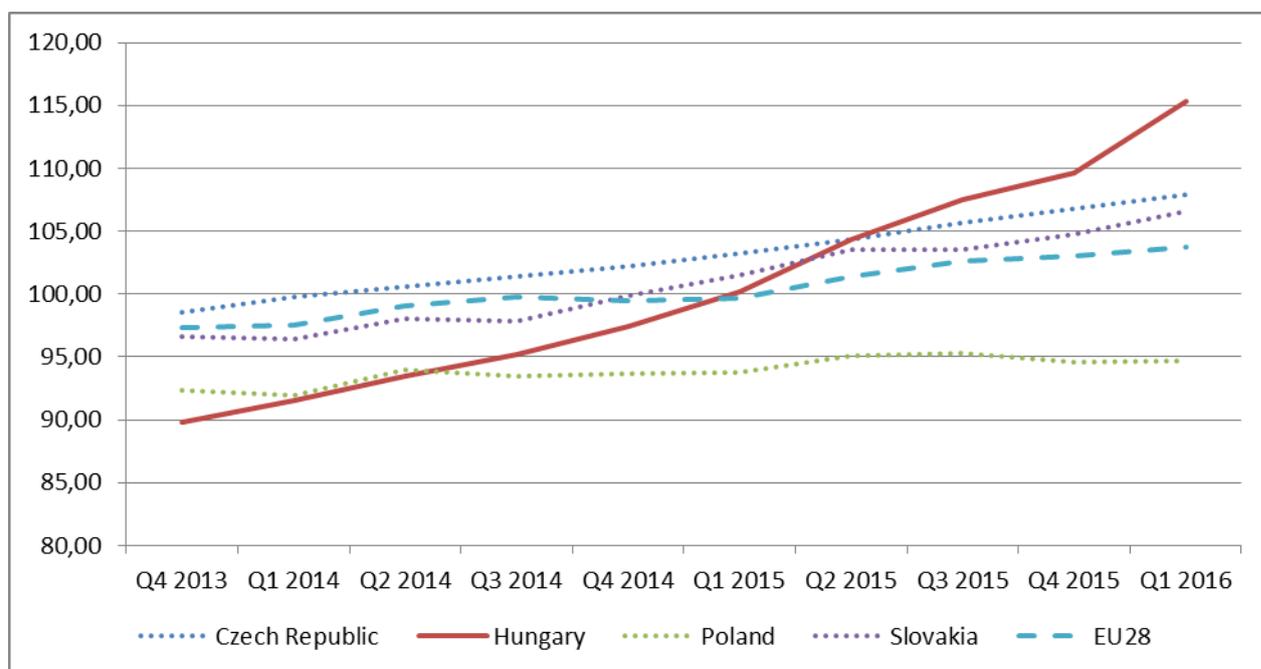


Source: Hungarian Central Statistical Office (KSH)

These positive trends on Hungary's housing market are remarkable even from an international perspective. Figure 3 presents the Eurostat's quarterly price indices for residential property, which show trends since Q4 2013 compared to the level of 2010. Residential property prices have been rising in each member of the Visegrad Four, but the pace of growth has naturally been different: in the observed period, the most modest rise was recorded in Poland and **the steepest relative increase in Hungary.**

At the beginning of this period, Hungary's price index was the lowest (90 percent), but by the beginning of 2015 the rate of price growth exceeded the EU average. At the start, the index had a higher reading for the Czech Republic, therefore the overall increase was relatively modest, and thus the country ranks as second in terms of price growth among the Visegrad Four. In the case of Slovakia, the index rose from a relatively high base of 96 percent to 107 percent, which increase placed the country as third in the ranking. The base level of Poland was already low in 2013 and the country registered only a slight increase of 3 percentage points since then, and thus they are the tail-enders of the group.

Fig 3: Residential property price indices (2010=100%)



Source: Eurostat