Annual Report on Housing Poverty

2022

Habitat for Humanity® Hungary

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COVER IMAGES

Márton Czirfusz

Public housing policies and government expenditure on housing

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Márton Czirfusz
(Periféria Policy and Research Center; Centre for Economic and Regional Studies)

The original manuscript was completed on 1 December 2022. Posterior developments are not part of the analysis.

The year 2022 represented a turning point in Hungarian public housing policy. The housing crisis became more widespread, and the government's fiscal room for manoeuvre became limited.

The government structure and ministerial responsibilities changed after the 2022 parliamentary elections. Housing policy was further fragmented across ministries. Decision-making on policy instruments lacks transparency and impact assessment; social dialogue is also missing. The general direction of the instruments seems to prioritise preventing middle class households from facing housing affordability issues and maintaining the subsidies available to them. Socially targeted instruments remain scarce and accessibility of subsidies for poorer households has been further reduced. Some housing policy instruments were scrapped. The devaluation of subsidies due to inflation foreshadows an increase of housing poverty in the coming years, primarily because of affordability issues.

1. Housing responsibilities in the ministerial structure

In the fifth government of Viktor Orbán, formed in May 2022, **housing policy gained greater autonomy than** in previous terms, **but housing-related policy-making was further fragmented between ministries. A coherent and strategic approach to housing policy has been missing since 1990.**

The Minister of Economic Development, Márton Nagy, is responsible for housing policy at the strategic level. Within the Ministry, a Housing Policy Development Unit was established which is a partial improvement compared to previous years, when housing policy did not have a separate ministerial unit. **Government spending on housing policy instruments remained with the Minister of Finance, Mihály Varga.** In addition, the **Minister of Culture and Innovation** is responsible for family policies (which have some housing policy interlinkages), and some specific housing schemes, such as the operation of higher education dormitories and housing assistance to victims of trafficking and domestic violence (safe homes, women's shelters, and transition housing). The **Minister of Interior** is responsible for local government and social policy, including the social firewood subsidy and the operation of social institutions providing permanent and temporary housing. The **Minister of Justice** is responsible for the preparation of legislation on multi-apartment buildings. The **Prime Minister's Office** implements the Hungarian Village Programme, which also has a small housing programme element (Figure 1).[1]

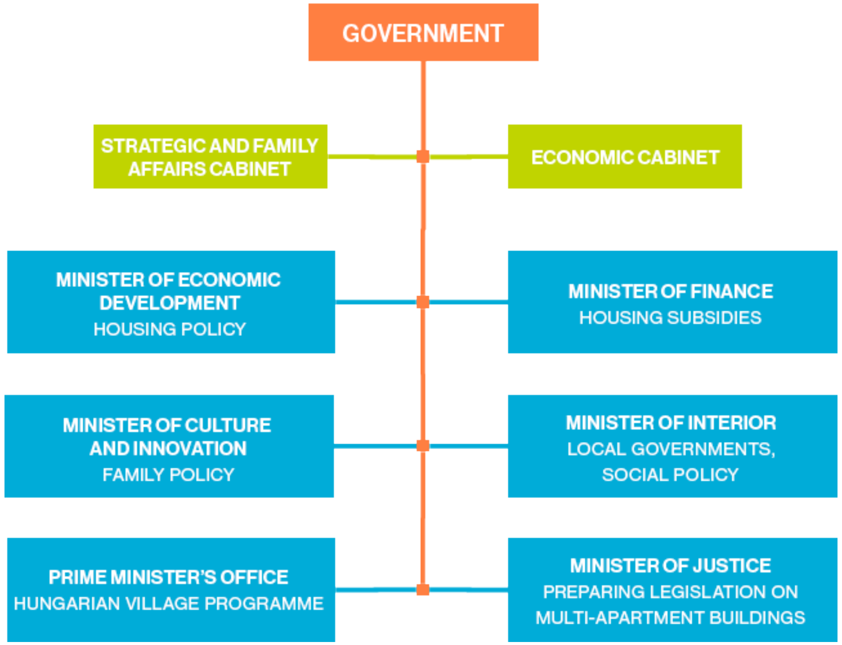

Figure 1: Ministers responsible for housing (2022)

Separating strategy-making (Minister of Economic Development) from the implementation (Ministry of Finance) might be justified. However, the demarcation of responsibilities seems unclear: the Ministry of Finance also performs some conceptual tasks, while the strategic approach might be hampered by the fact that financial decisions remain with the Minister of Finance.

The financial logic of housing policy is expected to remain dominant in the fifth Orbán government, exacerbated by the financial challenge of rising interest rates and inflation. The family policy logic of housing policy seems to have faded after its main ambassador, Katalin Novák left government after being elected head of state.[2]

[1] Government Decree 182/2022. (V. 24.).

[2] On the institutional logics of Hungarian housing policy after 1990, see Czirfusz, M., Jelinek, Cs. (2022). Housing policies and housing affordability in Hungary after 1990. In: Vankó, L. (ed.). Annual Report on Housing Poverty 2021. Budapest: Habitat for Humanity Hungary.

2. Policy changes

The macroeconomic environment, Hungarian economic developments, the war in Ukraine, the energy price hike and the new government structure have all had an impact on housing policy instruments in 2021–2022.

2.1. New housing policy instruments

The war in Ukraine has led to an increasing need for temporary accommodation for refugees arriving in Hungary. Accommodation has been mostly provided by private individuals and NGOs – including Habitat for Humanity Hungary, in cooperation with the Streets to Homes Association (Utcáról Lakásba! Egyesület) –, municipalities and church/charitable organisations. The costs of NGOs have partly been reimbursed by the state. There is no data on how many refugees registered for temporary protection are provided with accommodation by the state, or how many of the non-registered refugees are staying in Hungary for a longer time and need housing assistance.[3] The government launched a new scheme providing subsidies for employers to cover the housing costs of Ukrainian (or Ukrainian–Hungarian dual citizen) employees who arrived after the outbreak of the war.

2.2. Upheld housing policy instruments

In 2022, the **family housing benefit (CSOK),** a non-repayable cash subsidy for families with children who buy, build, or expand a home, is available under the same conditions as previously. The CSOK programme's variant, available in selected rural villages, was extended until the end of 2022. The background material of the Budget Act for 2023 lists the family housing benefit among housing subsidies, therefore it is expected to be accessible in 2023 as well.

The **baby expecting loan,** a state-subsidised personal loan, is available until 31 December 2022. Most borrowers use this loan to buy a home. The Budget Act 2023 foresees upholding this instrument as well in 2023. Applications started to decrease in 2021. Baby expecting loans currently account for 18% of households' outstanding loans.[4]

The **home renovation subsidy,** a cash grant with a maximum of 3 million HUF for covering 50% of home renovating costs of families with children, is available until 31 December 2022. The Budget Act of 2023 foresees upholding this instrument in 2023. From February 2021, a **home renovation loan with an interest rate subsidy** has also been available, which makes the instrument more accessible for households, as it eliminates the need for upfront financing. Banks concluded home renovation loan contracts for a total amount of HUF 46 billion by the end of 2021.[5] **Neither the subsidy, nor the loan is socially targeted, and improving energy efficiency is not a necessary condition for receiving the subsidy.** Thus, several hundreds of billions of HUF are spent without any guarantee of contributing to energy efficiency and improved quality of housing. Poorer households are disadvantaged by the fact that renovation work that they would be able to carry out themselves cannot be funded by the programme.

The **moratorium on loan repayments** was introduced in March 2020 and lasts until 31 December 2022. 5% of household loans were included in the moratorium scheme in February 2022, half of which (a total amount of 460 billion HUF) were housing loans. According to calculations by MNB (the central bank of Hungary), the average borrower during the moratorium

[3] For detailed statistics, see the UNHCR Data Portal. Approximately 32 thousand refugees from Ukraine registered for temporary protection as of end of November 2022.

[4] MNB (2022): Trends in lending. September 2022. Budapest: Magyar Nemzeti Bank.

[5] MNB (2022): Housing market report. May 2022. Budapest: Magyar Nemzeti Bank.

will incur an additional expenditure of 1.7 million HUF from 2020 until the end of 2022, which will increase the duration of their loan contract by an average of 4 years and 10 months.[6] Borrowers' affordability problems are expected to worsen after the end of the moratorium.

The **interest rate cap,** introduced in response to rising interest rate environment,[7] fixes the interest rate on mortgages with variable interest rates at the October 2021 level, starting 1 January 2022. This measure applies to around 300,000 contracts; the costs are borne by credit institutions. The interest rate cap is a temporary remedy for borrowers and the government has not yet offered a long-term solution, especially for those with affordability problems. After the phase-out date of June 30, 2023, the instalments for an average borrower are expected to rise by almost 50%.[8]

The **reduced 5% VAT rate on the sale of new homes** was extended until 31 December 2024. The reduced VAT rate does not reduce housing poverty. Poorer households cannot afford new-builds and the reduced rate on new housing does not have a significant impact on the prices of second-hand housing.

The **Hungarian Village Programme** continued with grant schemes for the renovation and construction of housing for doctors and public workers. Municipalities with a permanent population of less than 5,000 can apply for funding. The programme is controversial, as it does not allocate money for settlements facing the most severe difficulties in the provision of basic services. Furthermore, the decision-making process on applications is not transparent either.

2.3. Changing housing policy instruments

The government modified its flagship housing policy instrument, the utility price reduction, introduced in the mid-2010s. **Previous price caps on gas and electricity were partially eliminated starting from August 2022:** consumption above 'average household consumption' is subject to a higher 'household market price'. Rising global energy prices were already foreshadowing serious fiscal problems, as differences between global energy prices and households' prices are to be covered by the central budget, as household provision is undertaken by a state-owned company.

The partial phase-out of price caps did not consider household size, household energy mix or affordability issues; thus, it may affect a large number of households living in or at risk of housing poverty. The burden on households using electricity for heating, or those of pensioners living alone in poorly insulated houses will increase significantly. Rising demand for price-capped firewood also affects households using solid fuel heating. More details on this can be found in a separate chapter of the report.

Due to the rising interest rate environment, the government has reduced fixed margins and cost reimbursements for credit institutions which provide subsidised housing policy instruments with the aim of reducing the burden on the government budget. **The widening interest rate gap between market loans and subsidised housing loans increases inequalities between those able to access subsidised loans (wealthier families with several children) and those who are not.**

[6] See the June 2022 press release of the MNB.
[7] The Central Bank base rate is 13% as of November 2022, but the one-day deposit pays a fixed 18%.
[8] MNB (2022): Financial Stability Report. 2022 November. Budapest: Magyar Nemzeti Bank.

2.4. Discontinued housing policy instruments

The remaining public housing portfolio of the **National Asset Manager**[9] (6,400 properties) was handed over to the **MR Community Housing Fund** (MR Közösségi Lakásalap) as a free asset transfer on 1 January 2022. The owners of the MR Community Housing Fund are the Hungarian Charity Service of the Order of Malta and the Hungarian Reformed Church. Thus, the government outsourced public tasks, while these tasks continue to be financed from the national budget.

The **Green Home Programme** of the MNB within the Funding for Growth Scheme was discontinued in 2022. Within the Green Home Programme, the Central Bank of Hungary provided 300 billion HUF of zero-interest refinancing loans for credit institutions which they lent onwards to customers at a 2.5% fixed interest rate for buying or building energy efficient homes. As the programme was not socially targeted, it provided inexpensive loans to approximately 8,600 wealthier households.[10]

As of 31 May 2022, the **moratorium on evictions and foreclosures ended.** The moratorium was introduced at the start of the Covid-19 pandemic in March 2020. Also, new provisions accelerating foreclosures came into force. These, according to the Streetlawyer Association (Utcajogász), an NGO providing legal aid for the housing poor, violate debtors' rights and could more easily lead to losing homes.[11]

[9] The National Asset Manager bailed out 36 thousand defaulting debtors after the 2008 crisis. The properties became state-owned, former owners remained in their homes as tenants. In 2019, tenants could buy back their previous property with discounts, which 90% of them did.

[10] See the leaflet of the MNB for the details.

[11] For details, see the Hungarian press release of Utcajogász.

2.5. Miscellaneous developments related to housing

Those living in housing poverty are negatively affected by the legal changes in the resident register. **Since July 2021, people are not obliged to register their actual place of residence.** Access to public services will be more difficult for those who cannot register at their actual place of residence for whatever reason (for example, those with precarious rental contracts). This change will also make it more difficult for the central government and for municipalities to design and adapt public services to local needs.

Another housing policy development is that **the Partnership Agreement between the European Commission and Hungary on the use of EU funds between 2021–2027 has not yet been signed at the time of writing,** and the Recovery and Resilience Plan of Hungary was only approved at the end of 2022. Therefore, these funds, which also featured some programmes alleviating housing poverty, have not started yet. Some schemes related to housing were prefinanced by the state, such as the residential photovoltaic and heating electrification call for application. However, this had to be recalled after the government introduced regulatory changes banning new photovoltaic power systems from connecting to the power grid.

3. Budgetary expenditure on housing

Central government spending on housing remains untransparent. Substantive information on expenditure, its justification and programming are missing from the annexes of the Act on the National Budget. After the adoption of the Act on the Budget by Parliament, the budget allocation is often modified during the year by government decrees, further limiting transparency.

The budget line 'Housing subsidies' continues to incorporate the largest housing policy instruments. **In 2021, spending was 376.5 billion HUF at current prices, the highest amount in the post-2010 Orbán governments.** This amount is also the third highest in real terms after 1990 and 2005 (Figure 2). The increasing spending is mainly due to the home renovation subsidy, available since 2021, the expansion of existing schemes, and changes in interest rates leading to higher top-ups of subsidised loans from the state budget.

2022 shows an unexpected increase in expenditure. By the end of October 2022, expenditure of the housing subsidies budget line had already reached 499.2 billion HUF, 131% of the annual allocation.[12]

For 2023, the budget line 'Housing subsidies' shows a projected expenditure of 491.2 billion HUF, which seems underestimated. if policy instruments do not change. Also, the government envisages completely revising the 2023 budget in December 2022, because macroeconomic changes following the adoption of the budget by Parliament in July made the budget outdated.

None of the larger items of housing policy have social targeting, including the home renovation subsidy, the family housing benefit, subsidised loans

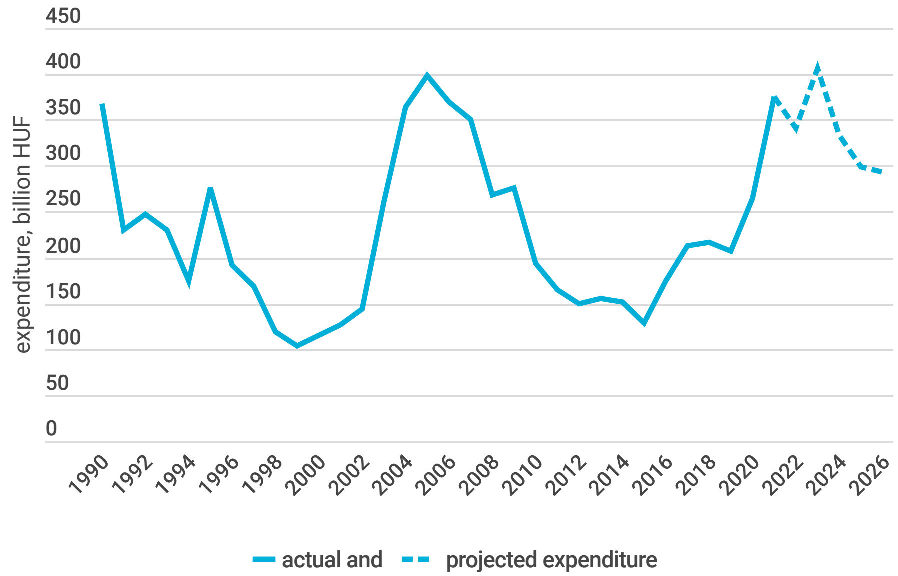

Figure 2: Expenditure of the 'Housing subsidies' budget line
billion HUF, at 2021 prices, 1990–2026

Data source: final accounts and budget bills, Hungarian Central Statistical Office (consumer price index), MNB (June 2022 inflation forecast). Data are publicly available at this link.

[12] Data source: Ministry of Finance monthly report on government spending, October 2022.

linked to the family housing benefit, top-ups for building society savings; the tax refund subsidy for owner-occupied housing construction as well as reducing mortgages of families with children.

Furthermore, taking allocations beyond the 'Housing subsidies' budget line into account, **non-socially targeted subsidies account for 93% of the projected housing expenditure, 648 billion HUF. Socially targeted housing subsidies will account for an almost negligible share of government spending in 2023.** For a detailed breakdown of expenditures, see Figure 3.

The **Utility Protection Fund** was established in an amendment of the 2022 budget and will form part of the 2023 budget. The government plans to **spend 700 billion HUF from this fund in 2022 and 670 billion HUF in 2023.** According to the government communication, this is to uphold the utility cost reduction for households. However, **it is not yet known how this money will be spent. The planned budget is unlikely to be sufficient to compensate for the rising costs of energy imports and to cover the gap between market prices and prices paid by households** – even after the partial phase-out of the price cap.

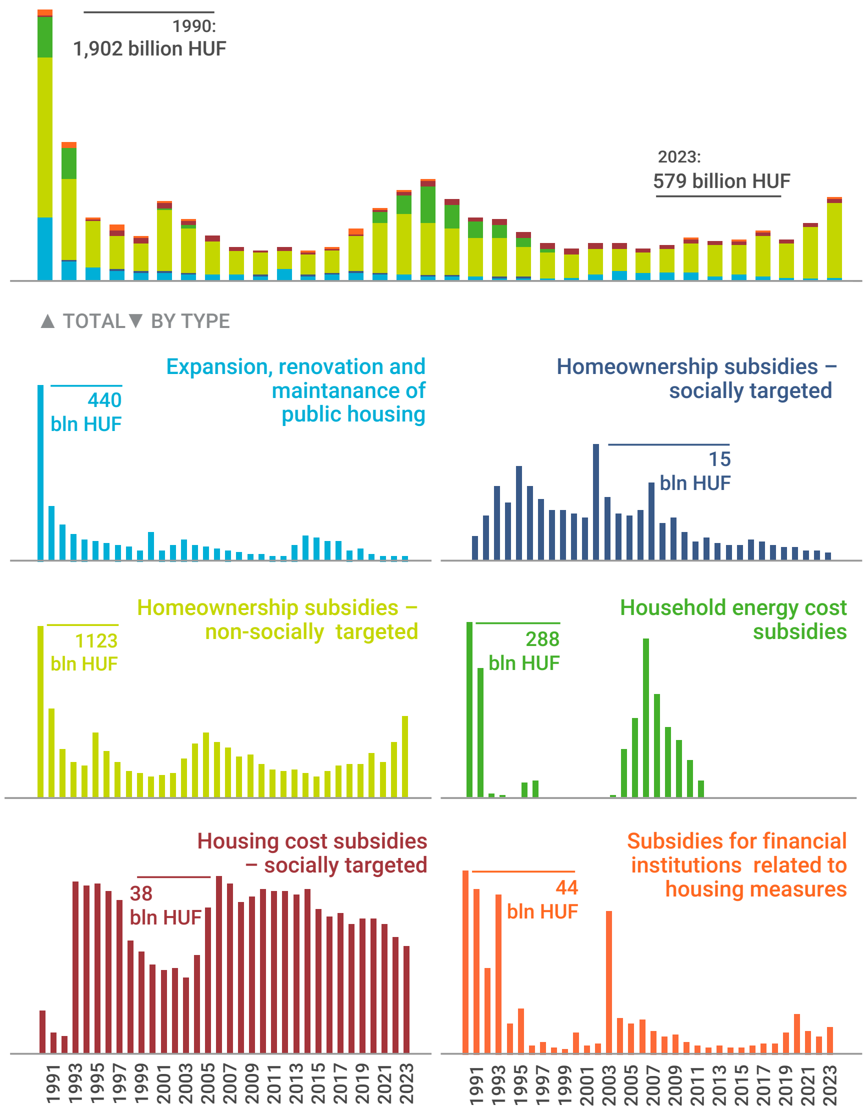

Figure 3: Government expenditure on housing
billion HUF, 2021 prices, 1990–2023

Data source: final accounts (1990–2020) and budget acts (2021–2023), Hungarian Central Statistical Office. Detailed data are publicly available at this link.