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Housing Conditions and State Assistance, 1999–2003

Abstract

The paper describes briefly the main findings of the latest housing surveys in connection with the composition and quality of the housing stock and the most typical characteristics of the Hungarian housing market. It concludes that despite the continuous improvement of the overall housing quality indicators the share of substandard housing decreases rather slowly.

As regards housing markets the housing surveys revealed a rapid increase of property prices in the 1999-2003 period that contributed to the further polarisation of housing market price levels. Besides, this part of the paper gives an overview of the composition of housing market transactions by regions and building types.

The last section of the paper analyses the consequences of the latest housing policy measures, with special attention to the extension of housing loan subsidies and the introduction of the so-called Rental Dwelling Programme. The paper ends with the recollection of the dilemmas of a fair and sustainable housing subsidy system.

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Introduction

In 1999 and 2003 the Hungarian Central Statistical Office conducted a representative survey on the housing situation in Hungary, which examined various characteristics of housing investments, mobility, and quality of housing stock, as well as the utility costs. The analysis in our study is largely based on these data.¹ Besides this, we have used continuous statistical data on apartment building; we have surveyed, organized and evaluated housing policy measures regulating financial assistance for home buying.

The section dealing with the quality of homes and housing investments describes the significant structural changes that have taken place within the building industry. The structure that for decades was considered stable now seems to be undergoing a rearrangement: the proportion of new construction by investors and professional developers keeps growing, and the quality of new homes seems to be much more diverse than it used to be.

In both the studies we are going to discuss in this paper homeowners were asked to judge the market value of their property. The data from both time periods (1999 and 2003) are recalculated by regression analysis estimations. We found that in 1999–2000 there was an unprecedented boom in property market values: while consumer prices rose by 32 per cent, property values grew by 200–250 per cent between 1999 and 2003.

Since the mid 1990s some 150–170 thousand households have moved house in Hungary. Two-thirds of these moves have involved transactions on the property market, which means that there have been about 100 thousand properties sold on the market or built as new each year.

The change in mortgage regulations has fundamentally altered the system of financial assistance to acquire a home: in four years, the number of housing loans grew by eight or nine times. As a result of this, the proportion of credit stock within the GDP grew from one per cent in January 2000 to seven per cent in December 2003.

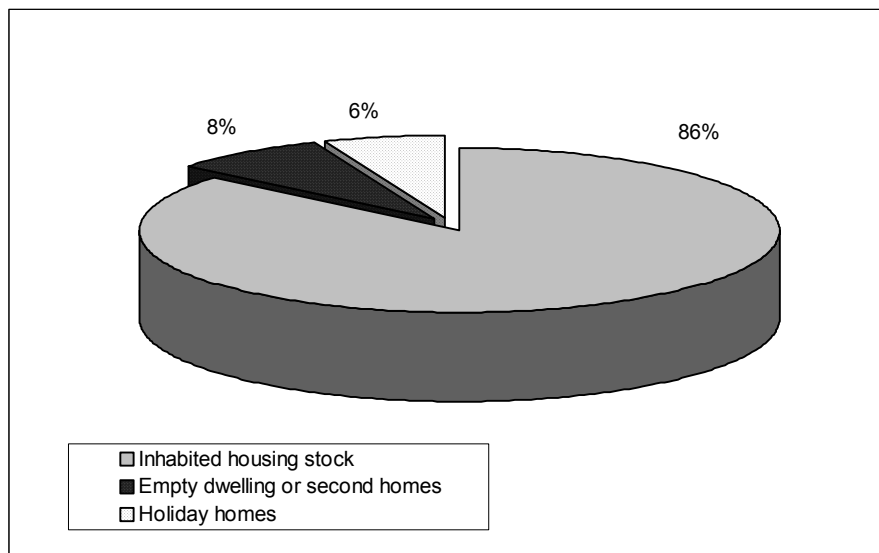
¹ The research project entitled *Housing Conditions 2003* was carried out with the support of the Secretariat of the National Housing Programme by the Socio-statistics Department of the Hungarian Central Statistical Office (HCSO) in the spring and summer of 2003. A similar large-scale data-gathering exercise was carried out at the beginning of 1999, in the project entitled *Housing Conditions 1999*. This project was carried out with the support of ministries responsible for housing at that time. The current analysis is largely based on data drawn from these two surveys.

The housing stock structure, its qualities, and housing investors

The composition of the housing stock

The 2001 census recorded 4.07 million housing units in Hungary, of which 341 thousand were uninhabited (*Figure 1*). This means that, compared to 1990, the amount of uninhabited housing has doubled: it was four per cent of total housing stock, and now it is eight per cent. In addition, 252 thousand holiday homes were recorded by the census. The number of homes and holiday homes in 2001 thus topped 4.3 million.

Figure 1: Structure of housing stock at the beginning of 2001 (%)



Note: The total number of houses is 4.318 million.

Of the 341 thousand uninhabited dwellings, 250 thousand were kept empty, and 50 thousand were so-called second homes. An additional 15 thousand uninhabited properties were used as holiday homes, and the remaining 27 thousand were used for other purposes (e.g. as offices). The ownership structure of uninhabited properties and their geographical location are identical to those of inhabited ones. Their quality, however, is much worse: only about 60 per cent of them are well appointed (i.e. equipped with a bathroom, and hot and cold running water), whereas in the total housing stock this value is over 80 per cent. Some 95 per cent of the 252 thousand holiday homes are utilized appropriately, and five per cent of them are used as main homes or for some other purpose.

All of this means that, from the start of the 1990s, there was a fundamental structural change in the housing stock. The substantial proportion of vacant dwellings and the growing number of holiday homes that may be used as regular homes as well, allows for more varied, effective and flexible interventions by state and local government—though it is a different matter whether it is politically expedient to make use of this possibility.

Over the past few years, after a process of change in the housing stock, we can say that there has been a stabilization. Although past governments have frequently changed the direction set by their predecessors, nevertheless it seems that certain processes have continued across different governments. The events of the past two to three years were naturally influenced by state support for loan interest rates, and the upsurge in housing construction is a result of this. But two important processes have shown themselves to be stable. *One* is the continuous improvement in the quality of housing, and with this a certain polarization; the *other* is the structural change in home building.

The quality of the housing stock

Based on the housing conditions studies of 1999 and 2003, the summary data on housing stock and inhabitation density show a continuous improvement. The decrease in population plays a role in this. The number of inhabitants per 100 rooms has crossed a critical threshold: it was 98 in the summer of 2003. Besides this, the territory available per individual has grown as well.

Table 1: A few indicators of dwelling quality

	Per 100 homes population (individuals)	Per 100 rooms	Territory per indi- vidual (m ²)	Average size of homes (m ²)	Homes estimated number (thousand individuals)	Inhabitants estimated number (thousand individuals)	N
1999	261	104	28	74	3,826	9,997	10,754
2003	260	98	30	78	3,743	9,758	8,781

Similarly, the quality of the housing stock has improved pretty rapidly: the number of homes that are not well appointed (i.e. are not equipped with hot and cold running water) has dropped by 50 per cent, and only 10 per cent of total housing stock now consists of such properties. There are only seven to eight per cent of properties that do not have a bathroom and running water.

Table 2: Various qualities characterizing homes (number, %)

The amenity rating of homes	No. of homes (thousand homes)		Proportion of homes (%)	
	1999	2003	1999	2003
Half equipped, not well appointed, temporary accommodation	724	409	18.9	10.9
Without running water	310	272	8.1	7.3
Without public sewerage	1827	1317	47.7	35.1
Without bathroom	457	291	11.9	7.8
Without WC	447	335	11.7	9.0
Built of mud walls and in a building without foundations	185	170	4.8	4.5
Built before 1945	1053	886	27.5	23.0

Table 3: The proportion of 'substandard' homes in each income quintile in 1999, and 2003 (%)

Income quintile	1999	2003
Lowest	36	41
2nd	27	29
3rd	18	15
4th	13	10
Highest	6	4
<i>Sum of all homes</i>	<i>100</i>	<i>100</i>

Within the context of improvement in the quality of the housing stock, it is worth noting that a substantial proportion—some 13 to 15 per cent—does not meet basic requirements, and the proportion of this 'substandard' stock has been decreasing at a much slower pace. By definition, these are homes of which one of the following is true: there is no WC and bathroom, no public sewerage, or the home is in a building without foundations and with mud walls. By this definition, in 1999 there were 18 per cent of homes (more than 670 thousand properties) that fell into this category, and by 2003, 14 per cent (almost 530 thousand properties) remained (*Table 2*). The distribution of substandard homes based on income quintiles is very unequal: in 2003 households belonging to the lower two-fifths had 70 per cent of the worst quality homes (*Table 3*).

Housing investments, dwelling construction

Home investments (including renovation and rebuilding of old homes) have increased substantially since 1998. According to our estimates, by 2002 the figure was approaching five per cent of GDP, and by 2003 it had reached five per cent.

Table 4: Home investments in 1999 and 2002 (billion HUF, %)

Year	Total investments of the national economy	Home in- vestments	Proportion of home investments	
			of total investments of the national econ- omy	of GDP
	Actual value (billion HUF)		(%)	
1999	2427	328	13.5	2.9
2002	3313	713	21.5	4.3

Home investments are split roughly evenly between new-build homes and renovated or rebuilt homes. In the field of construction the proportion of professional investors always used to be low, and building work was mainly carried out on a private, 'self build' basis. By contrast, over the past couple of years, home building by investors and professional developers has come to predominate. At the same time, there is greater flexibility in meeting people's needs, and the size of homes has become more varied.

Since 1999 the number of building permits issued for new home building has been steadily growing, and in 2003 this had a pronounced effect on the number of homes handed over.

Table 5: The number of permits issued for building homes in 1999 and 2003

Year	Permits issued for home building	Number of homes built	Number of homes built (per 1000 individuals)
1999	30,577	19,287	1.9
2003	59,241	35,543	3.5

The proportion of private home building has been decreasing steadily since 1998 in Hungary, but since 2000 this trend has been accelerating. Whereas the proportion of homes built by private individuals was 85 per cent in 1998, the figure was barely 60 per cent in 2003. Home building by professional investors trebled between 1998 and 2003. Since 2002, though still modest, the effect of local government home-building schemes has been felt. Thus, the building industry, which a few years ago was overwhelmingly dominated

by one player on the market, has gone through major changes, and a much healthier new structure is about to develop.

Table 6: Structure of home building in 1999 and 2003 (%)

Year	Professional developers		Professionally built	Self-build
	for rent	for sale		
1999	11.4	11.0	35.3	52.8
2003	31.2	32.4	58.7	35.5

The proportion of professionally undertaken construction has grown from 35 per cent to 60 per cent, and at the same time, private self-build made up only a third of home building in 2003 (*Table 6*). This tendency is supported by data on the purpose of building and the type of developer: within the total number of homes built, the proportion of homes built for sale to other people has grown from one tenth to one third.

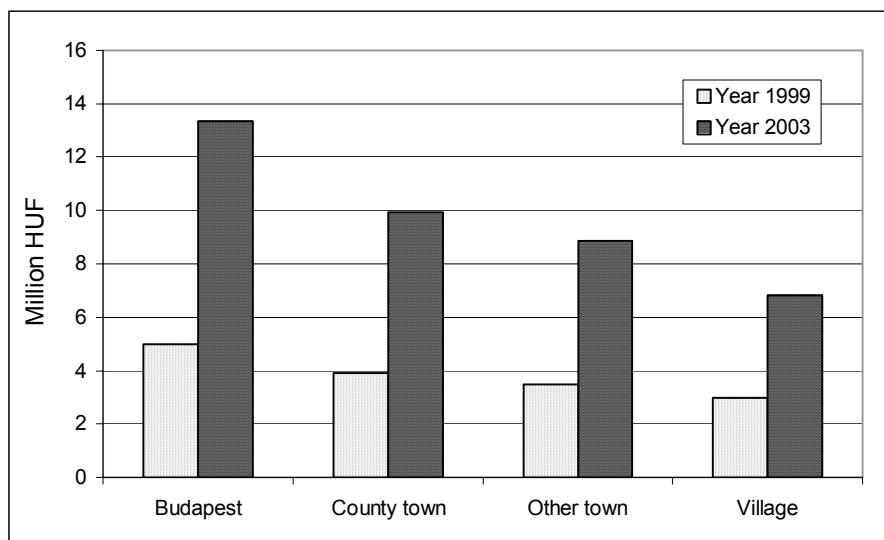
The housing market

In the 1999 and 2003 housing studies mentioned above, we made an attempt to monitor the development of prices on the housing market. For both studies, homeowners were asked to estimate the market value of their property. The data gathered in this way were recalculated by linear regression for both dates. Hence we gain an understanding of the transformation of the housing market during a period (1999–2000) that saw an unprecedented explosion of prices. This is reflected in our results: while consumer prices rose by 32 per cent, housing market prices grew by 250 per cent between 1999 and 2003.

The price increase was highest in towns, and this has further intensified the housing market differences based on geographical location (*Figure 2*).

Table 7: Average price of one m² by type of settlement and type of building, 2003 (thousand HUF)

Type of settlement	1–3 apartments in the building	Block of flats (pre-fabricated construction)	Other type of apartment building	Total
Budapest	224	170	217	205
County town	149	122	139	139
Town	106	110	108	106
Village in agglomerating areas	146	-	-	148
Village	58	-	-	58
<i>Total</i>	<i>102</i>	<i>141</i>	<i>164</i>	<i>121</i>

Figure 2: The average increase in property prices by type of settlement (million HUF)

In towns, flats in pre-fabricated blocks are the least expensive homes, despite the fact that the price increase was between 200 and 250 per cent over just four years. The marginalization of pre-fab blocks of flats is most conspicuous in Budapest, where the price difference between these apartments and those in other types of apartment buildings is 28 per cent. The difference in county towns is only 14 per cent.

Housing market transactions, the structural components of the property trade

Since the mid 1990s there have been about 150 to 170 thousand changes of residence in Hungary. Two-thirds of these involved transactions on the housing market, which means that there were about 100 thousand homes built or bought. (In the remainder of the cases, when there was no transaction, the person or family moving rented a home, or inherited one, or received one as a present, or was taken in by relatives.)

The most typical way of acquiring a home is to buy a used one: one half of movers obtained their home this way; hence, there have been annually about 80 thousand homes into which new owners have moved (*Table 8*). One must emphasize the fact of moving, since we are dealing only with those transactions where the homes actually had an inhabitant during our survey. Such a survey cannot gather data about apartments bought as investments, rented, or standing empty for a given period of time.

Table 8: The number of home moves, and the way homes were acquired during the periods of 1995–1998, and 1999–2003 (%)

Period	No. of moves	Way of acquiring home				Total
		Built	Bought as new	Bought as used	No market transaction	
1995–1998	702,000	13.8	2.6	45.6	38.1	100.0
1999–2003	674,000	9.9	3.0	49.2	37.8	100.0
<i>Total</i>	<i>1,376,000</i>	<i>11.9</i>	<i>2.8</i>	<i>47.4</i>	<i>38.0</i>	<i>100.0</i>

Sources: 1995–1998: HCSO, Housing Conditions 1999, N=1017; 1999–2003: HCSO, Housing Conditions 2003, N=1435.

In the years directly preceding 2003 privately built homes decreased as a proportion of all moves, while the proportion of used homes grew, which is clearly related to the loan system being extended to the purchase of used homes.

In Budapest, there seems to be no especially large transaction rate. Since 1995 some 18 per cent of homes have been sold, which is exactly the same as the national average. By contrast, the proportion of homes sold in the county towns is high (25 per cent), whereas housing market transactions for small towns is much lower (14 per cent).²

Table 9: The number and proportion of homes sold according to type of settlement in the period 1995–1998 and 1999–2003

Settlement type	Number of used homes sold			Total, inhabited homes given in %
	1995–1998	1999–2003	Total	
Budapest	66,000	66,000	137,000	17.8
County town	96,000	73,000	169,000	25.4
Town	91,000	106,000	197,000	17.6
Village	74,000	87,000	161,000	13.6
<i>Total</i>	<i>333,000</i>	<i>332,000</i>	<i>665,000</i>	<i>17.8</i>

Source: 1995–1998: HCSO, Housing Conditions 1999, N=938; 1999–2003: HCSO, Housing Conditions 2003, N=1056.

² It must be emphasized again that we only have data on transactions related to a change of residence. We can continue to assume, however, that rapidly rising prices attract investors to Budapest, and thus the total number of market transactions is still higher there than elsewhere.

Table 10: The number and proportion of used homes sold according to type of building during the period 1995–1998 and 1999–2003

Type of building	Number of used homes sold			Total, inhabited homes given in %
	1995–1998	1999–2003	Total	
Family house	146,000	176,000	322,000	13.5
Block of flats (pre-fab)	95,000	68,000	163,000	33.3
Apartment in other type of apartment building	92,000	88,000	180,000	20.8
<i>Total</i>	<i>333,000</i>	<i>332,000</i>	<i>665,000</i>	<i>17.8</i>

Source: 1995–1998: HCSO, Housing Conditions 1999, N=938; 1999–2003: HCSO, Housing Conditions 2003, N=1056.

In many respects, the structure of the used property market during the period of observation differs from that of the total inhabited housing stock. We showed back in the 1999 study that mobility in family houses was much lower than in apartment buildings. And among apartment buildings, the greatest proportion of moves was into and out of pre-fab apartment blocks. In the period of observation, one third of all used pre-fab apartments changed hands. Although these trends also hold true for years gone by, the proportions have changed somewhat since 1999: the trade in apartment buildings has declined, while the number of family houses sold has grown.

State assistance for purchasing a home³

The year 2000 represented a watershed: the government announced some new elements in its housing policy. Government programmes have traditionally concentrated on two major areas: assistance for the social housing building programmes of local governments, and home-purchase loans. The state budget allocations associated with this have grown since 2000, but in 2003 had still not reached one per cent of GDP. The change in the home-purchase state assistance system (e.g. mortgage subsidies) promises a future increase in state budget expenses.

³ Although among home credit assistance we must mention financial assistance for home maintenance this is not analysed here separately. Home-maintenance support is related to other types of welfare assistance, and its importance was still very limited in 2003. The home-maintenance support makes up less than three per cent of the total home-related assistance.

Financial assistance for private home building and home-purchase loans

In 2000 two government programmes were launched to assist with home-purchase loans: one involved relief on mortgage-bond interest (on the supply side), and the other was interest rate subsidy (on the demand side). After 2002 the resource-side support meant typically a double-relief structure. The basic idea of these assistance programmes was to make home-purchase loans available to a broader range of the population during the transitional period, until the fall in inflation made loan interest rates affordable to most people. Therefore, the government settled on a structure in which the rate of support decreased as inflation fell. The support system, in this initial form, however, did not bring the expected results: at least, there was no immediate substantial take-up of home loans. Therefore there was a gradual increase in assistance and a broadening of the eligibility criteria until the modifications of 2003. The June 2003 modifications mainly consisted of restrictions, which were followed by a further decrease in state assistance towards the end of the year. Restrictions were necessary because the loans issued constituted a huge burden on the state budget and, according to the predictions, a further increase in loans would make the system unmanageable.

MORTGAGE DEMAND SIDE SUBSIDIES

Mortgage demand side subsidy was tied to the reference yield of state bonds (RSB), and was set at 0.4 RSB. This means that, as the interest on the state bonds decreases, so too does the proportion of relief. Originally, the time-scale for loan-interest relief was set at 10 years, and then at 20 years. At the same time, the transaction interest charged by banks was set at a maximum of RSB + four per cent, thus the mortgagor paid a maximum of eight per cent interest (capital interest + transaction interest) during the state-assisted period. In autumn 2001 the level of relief was increased by 0.2 per cent, hence the interest paid by the borrower was a maximum of six per cent.⁴ The most recent modifications to the law, in December 2003, reduced the level of relief, and set it at 60 per cent of RSB. This change also meant that the amount of relief would change less drastically as the RSB changed, than when the amount of relief was defined in percentage points. Since, during this period, the issuing bank (Hungarian National Bank) suddenly increased its base interest rate, the reference yield also increased. At the same time, the transaction and consumer interest rates have also risen, partly due to the increase in RSB, and partly because of the increase in the maximum chargeable interest rates defined in the regulation (*Table 11*).

⁴ Resource-side interest relief may, however, be combined with source-side relief (this is the so-called double relief); in that case, resource-side relief is limited in degree.

The state-assisted loan with interest relief was originally available only to buy or build new homes, and this remains the case today. At the time the programme was launched, only young married couples who were trying to acquire their first home, and families with at least three children were eligible to take part in the programme. These criteria, however, were quickly relaxed and, as a result, today any married couple or single parent can join the scheme. Moreover, since the separate assistance programme for home-building loans for enterprises was scrapped, enterprise support for home building is included in this scheme.

Table 11: Changes to the supplementary programme for home buying and building with loan interest relief, 2000–2003

	January 2000	June 2000	June 2001	October 2001	June 2003	December 2003
Amount of loan maximum (million HUF)	8	10	10	10	15	15
Time period of support (yrs)	10	10	20	20	20	20
Eligibility criteria	For new homes, first buyers	For new homes, married couples, single parents	Expanded to enterprise loans	Same	Same	Same
Degree of support	RSB – 4%	RSB – 4%	RSB – 4%	RSB – 2%	RSB – 2%	RSB *0.6
Maximum transaction interest*	RSB +4%	RSB +4%	RSB +4%	RSB +4%	RSB +4%	RSB*1.1 +4%

Source: Authors' own arrangement based on actual regulations from different bulletins.

Note: *Transaction interest means the interest rate officially charged by the bank. The interest paid by the client is this rate reduced by the amount of assistance.

RSB: Reference yield of State Bonds.

SUPPLY-SIDE STATE ASSISTANCE PROGRAMME

Supply-side assistance gives interest relief on the mortgage bonds behind home-buying loans, thus creating a long-term inexpensive source of loans. The right to issue a mortgage bond belongs exclusively to mortgage banks, which have a contracted connection to commercial banks, which, in turn, offer home loans to the general public. Besides this, mortgage banks themselves may offer loans to the public as well. This type of loan may be used to buy new or used homes, or for other home-building purposes (except for renovation).

Table 12: Alterations in sourcesupply-side relief conditions

	January 2000	January 2001	June 2001	October 2001	February 2002	June 2003	Decem- ber 2003
Amount of loan, maxi- mum (mil- lion HUF)	30	30	30	30	30	15	For new home: 15 For used home: 5
Relief, maxi- mum degree	–	–	–	7%	10%		
Degree of supply-side relief	3%	4.5%	6%	MI	MI + 2%	For new home: MI For used proper- ties: MI –1% Max: RSB*1.0 5	For new home: RSB*0.6 For used home: RSB*0.4
Maximum transaction interest	MI + 1.5%	MI + 1.5%	MI	MI –1%	6%	For new home: 5% For used home: 6%	RSB*1.1 + 4%

Note: In the case of sourcesupply-side relief, the transaction interest is the same as the interest paid by the client. The only exception to this is under the most recent modification to the relief system (Dec. 2003), according to which the interest to be paid by the client is the transaction interest reduced by the assistance.

MI: Mortgage-bond Interest; RSB: Reference yield of State Bonds.

To start with, the issue of the mortgage bond attracted three percentage-point interest relief, which later grew to six percentage points. Following this, in October 2001, the use of state-assisted interest relief was tied to the mortgage bond, and the level of relief was set at the interest rate of the mortgage bond. This was increased by two percentage points in February 2002, but the upper limit of relief was set at 10 percentage points. Since the mortgage-bond interest rates were about nine per cent at the beginning of 2002, this meant 10 per cent sourcesupply-side relief. Thus loan interest rates issued with supply-side state assistance, as a result of the increase in the level of relief, dropped from 11.5 per cent at the beginning of 2000, to six per cent at the beginning of 2002. However, the modifications of June 2003 have reduced the degree of relief, in the case of a new home to the level of the mortgage-bond interest, and in the case of used homes to that amount less one percentage point. The maximum transaction interest was tied to the RSB. Since the maximum transaction interest has not been increased, but, in the case of new homes, has been set at a maximum of four per cent, the reduction in state assistance has meant a reduction of bank interest margins. A

restriction experienced by the general public was that transactions within the family were not allowed, it was not permitted to use two types of interest relief, and the amount of the loans allowed was reduced to 15 million forints. The December modifications meant a much more drastic change; however, it also meant that the loan conditions of the two types of relief—sourcesupply and demand side—were identical in the case of purchase of a new home. The interest relief on the mortgage bond was tied to the RSB as well, though in the case of used homes, instead of 60 per cent, it is only 40 per cent of the RSB. These changes resulted in a 10 per cent interest rate on loans for used homes. (The alterations in the conditions for sourcesupply-side interest relief are summarized in *Table 12*).

TAKING ADVANTAGE OF TAX REDUCTIONS

Besides state relief on loan-interest payments, tax reductions were also put to use to increase the take-up of home loans. The opportunity to reduce the amount of personal income tax paid has been around before, but this type of allowance has been expanded substantially: in 2001 only to cover instalment payments on new-home loans, but by 2002 it was available for instalment payments for used homes, too. Personal income tax deductibles were increased from 40 per cent of the instalments paid in a year to 60 per cent. The maximum amount deductible was increased from 34 thousand forints to 240 thousand forints. Originally this tax deduction was only available for new-home purchase loans, but later it became available for other home-related loans. In 2003, however, the amount deductible from personal income tax was reduced by 50 per cent, a differentiated scale was introduced for the maximum amount of assistance available for interest payments, and an income limit was placed on this particular support scheme.

THE CREDIT STOCK AND THE DEVELOPMENT OF SUBSIDIES

In the four years that have passed since the establishment of home loans the home credit stock has grown by eight or nine times. Whereas at the beginning of 2000 the credit stock was only 130 billion forints, by September 2003 it had reached 1,130 billion forints. The growth could be so great because the stock had reached its lowest point at the turn of the millennium. The earlier state-assisted loans had mostly run out, and the issuing of new loans was minimal. Therefore the increase basically started from zero. As a result of this, the proportion of credit stock within the GDP had grown from one per cent at the start of 2000 to seven per cent at the end of 2003.

The dramatic increase in home-loan credit stock has been due to the success of state-assisted loans. According to HCSO data for 2003, the bulk of the credit stock (84 per cent) is state-assisted loans. The shrinking of market credit stock is illustrated by data that show that, whereas in 2001 65 per cent of the credit issued was state supported, this figure had grown to 95 per cent

by 2003. The increased growth started in 2002, when the state assistance for loans for used homes was substantially increased. The size of loans available only for new homes grew from two million at the beginning of 2003 to 6.8 million by the end of that year. Source-side loan interest relief, which serves mainly the purchase of used homes, has grown from 2.9 million forints to 4.7 million during the same time period.

HOME-BUILDING ALLOWANCE, THE SO-CALLED 'SOCPOL'

The amount of home-building allowance was increased during the Horn administration; the Orbán administration did not increase the available support (200 thousand forints after the first child, and one million after the second and third children), however it did expand the application of this support, by introducing the institution of the so-called 'half-socpol'. This meant that half the amount of the non-repayable home-building allowance was available for home extension and refurbishment as a non-repayable state grant. On 1 December 2002 a regulation instituted by the Medgyessy administration took effect (229/2002 (XI. 7) Government regulation); it increased the amount of 'socpol' to 500 thousand forints after the first child, and 1.1 million after the second and third children, with an additional 200 thousand for each child thereafter. The institution of 'half-socpol' has continued. At the same time, the concept of the advance was introduced, which makes this allowance available in the form of a lump sum in order to increase the proportion of the client's own capital. On first April 2004 there was a further increase in 'socpol': today, after the first child it is 800 thousand forints, after the second two million, after the third three million, and after the fourth four million forints. This is a non-repayable grant that can be used to buy a newly built home.

The 2002 increase in the home-building allowance was timely, since its real value had declined considerably in recent years, and thus did not provide real support for private home building. According to 2003 figures, building costs (building industry product prices) had grown by almost 10 per cent, and the increase in the allowance probably balanced this rise, together with the other costs involved in construction.

STATE ASSISTANCE FOR SAVINGS IN HOME-BUYING SAVINGS BANKS

According to the law regulating the operation of the home-buying savings banks, the state-assisted support for a given year was 30 per cent of the savings in that year, but a maximum of 36 thousand forints per year. On 1st April 2003 this amount was increased to a maximum of 72 thousand forints, still 30 per cent of the savings in the given year. Furthermore, the scheme has been extended to housing cooperatives and apartment buildings. Today, the 800 thousand accounts in home-buying savings banks suggest that the willingness of the population to save for home buying is very strong.

The social housing programme

Housing policies affecting local governments came to be regulated during the Orbán administration (12/2001 (I.31) Government regulation, and supplements). At this time, the areas of priority were construction of social housing by local governments, along with energy-saving renovation, the formation of building plots, and renovation of 'termofor' chimneys. Local government was expected to provide grants of varying proportions to help with such work. It also covered renovation of church buildings, which of course reduced the amount the church had to pay.

Of all the programmes, the social housing construction programme was the most important and, within the framework of this, local government would receive 75 per cent of its investment back from the state.

Alongside flats for rent to the needy, it became possible to build other low-rent flats. With these, the maintenance costs had to be covered, but there was no need for rents to reach the market level. The tender document set the rents of these apartments at a minimum of two per cent of building costs.

The social housing construction programme has been successful, and the value of tenders was well above the resources available. The majority of rejected applications were related to the building of social housing. Whereas in 2000 all tenders were approved, by 2002 52 per cent of social housing projects were rejected, as were 83 per cent of the low-rent schemes.

A further experience of social housing construction by local governments has been that homes sold by the local government—due to the extreme pressure of privatization—exceed in number the houses that are built by them. Therefore, it is an important element of this policy that a 15-year period was set, during which the reclassification of homes is not possible.

It must be emphasized that the social housing construction programme has been much more focused than other programmes, and, unlike the loan-interest relief programmes, it has reached those who were indeed targeted: the lower and lower-middle classes. It is clear, however, that this programme cannot solve the problem of social housing in the long term, and local governments must look for new solutions, of which one example is the rent-relief programme currently in preparation.

Dilemmas of the state-support system

The decisive change came about in the spring of 2002, when various positions on a number of key elements in the state-support system came to be crystallized and discussed, first of all in professional research material:

- How large will state budget expenses be, and will the government be able to carry this through?

- In case the great financial sacrifices do prove to be affordable by the government, the question still remains: is it worthwhile keeping state assistance at this high level? Does the support system serve the government housing policies effectively enough? Would lowering financial relief on loan interest payments result in a drop in credit and investment, and if so, by how much? What would be the risks if that happened?

- The distribution of state assistance is also being questioned, partly by various interest groups (banks, investment companies, etc.), and partly by the various social strata and classes. What other, alternative forms of assistance could be chosen?

With respect to home loans, households are being encouraged to redeploy their savings (to create a sort of portfolio), not to keep them all in bonds or in savings accounts, but to branch out into property. During the 1990s there seemed to be a movement in the opposite direction: it was then a feature of household portfolio decisions that people released the capital tied up in property, used some of it, and redeployed the rest. The decline in saving over the past few years, which was highlighted by experts in spring 2003, is obviously the result of an increase in home credit stock.

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