

Just a burden on the budget? Home-finance subsidies in Hungary

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The Economics of Subsidies

Households' budgetary decision



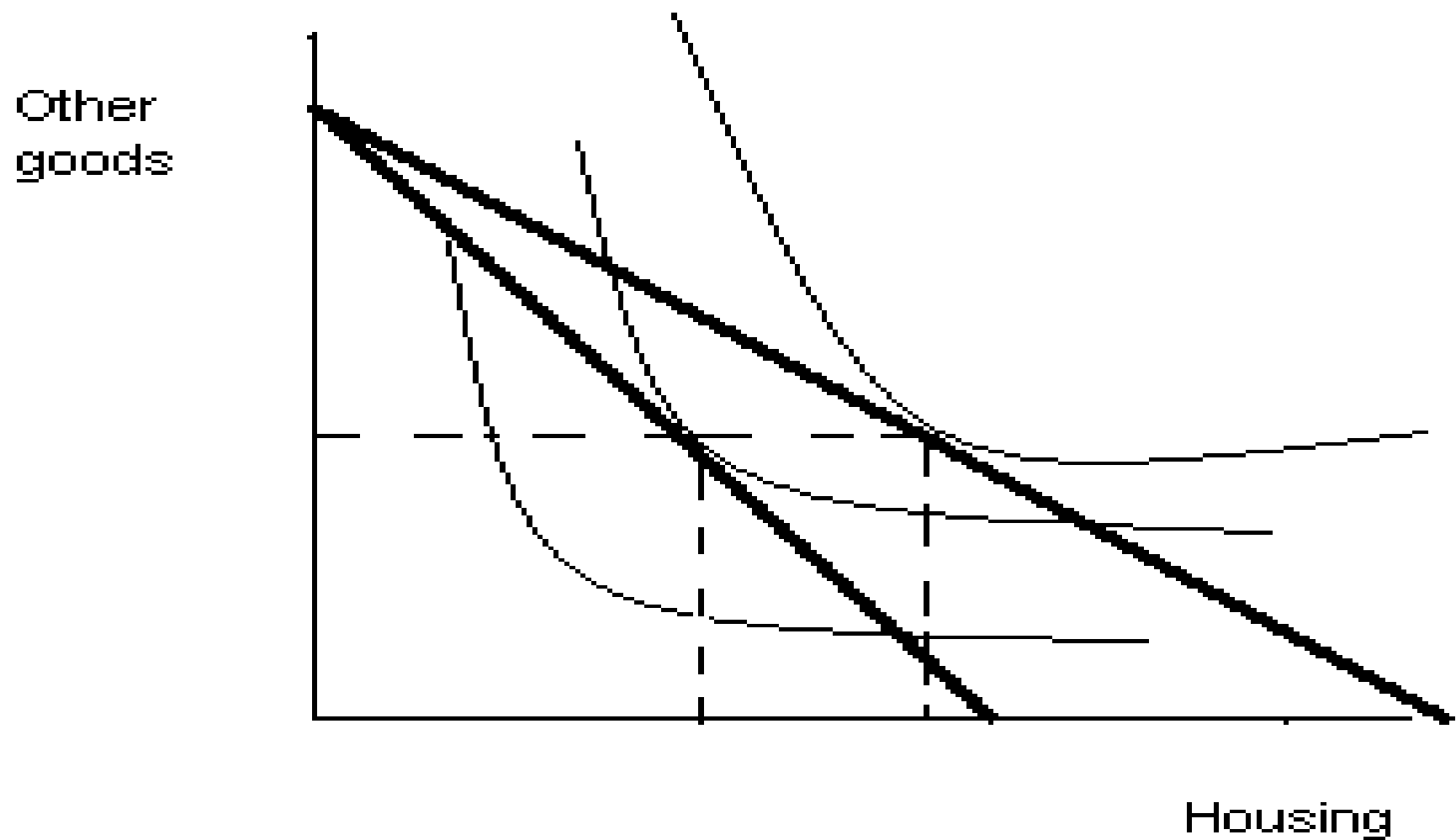
The Aim of the Household

Maximise its utility by combining expences

on housing and other goods under its

budgetary limits.

Household Budget Extended by Money-like Subsidies



The Effects of Money-like Subsidies

- The household can afford more housing expenditure
- ? it results on a higher utility curve by also expanding its welfare
- Household can freely chose among the housing supply under expanded budgetary restrictions

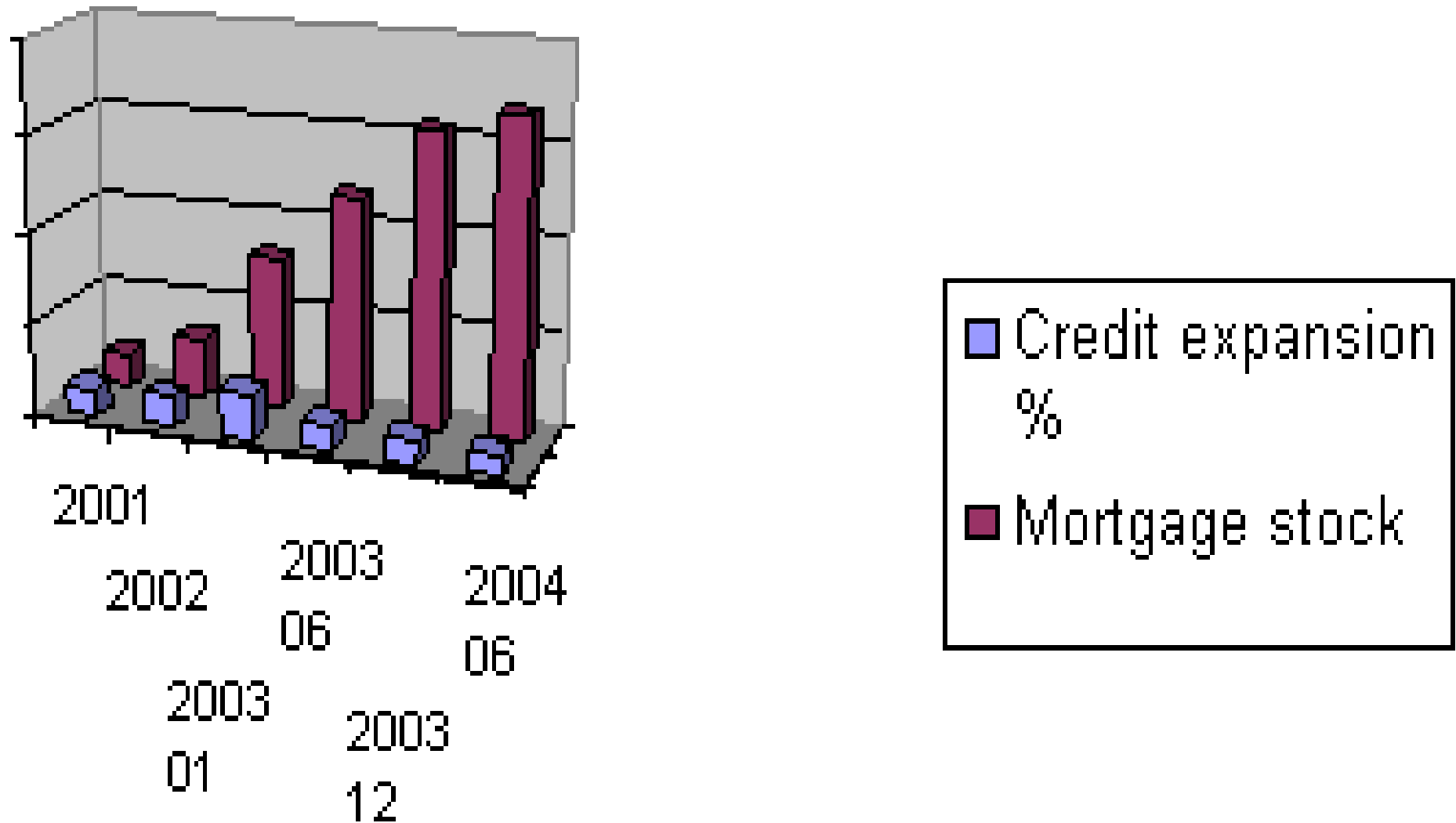
Pillars of the Hungarian Subsidies

- **Family aid** (support families with children to move to a bigger dwelling or to build/buy new construction by extra cash)
- **Mortgage rate reduction** (by 2000-2003 fixed offered rate 4-6%, now adjustable to the 3-months average yield of state-bonds 9-11%)
- **Tax reduction** (by 2000-2003 max 240 th Fts, now 120 th Fts for only 5 years)

Data to System Analysis

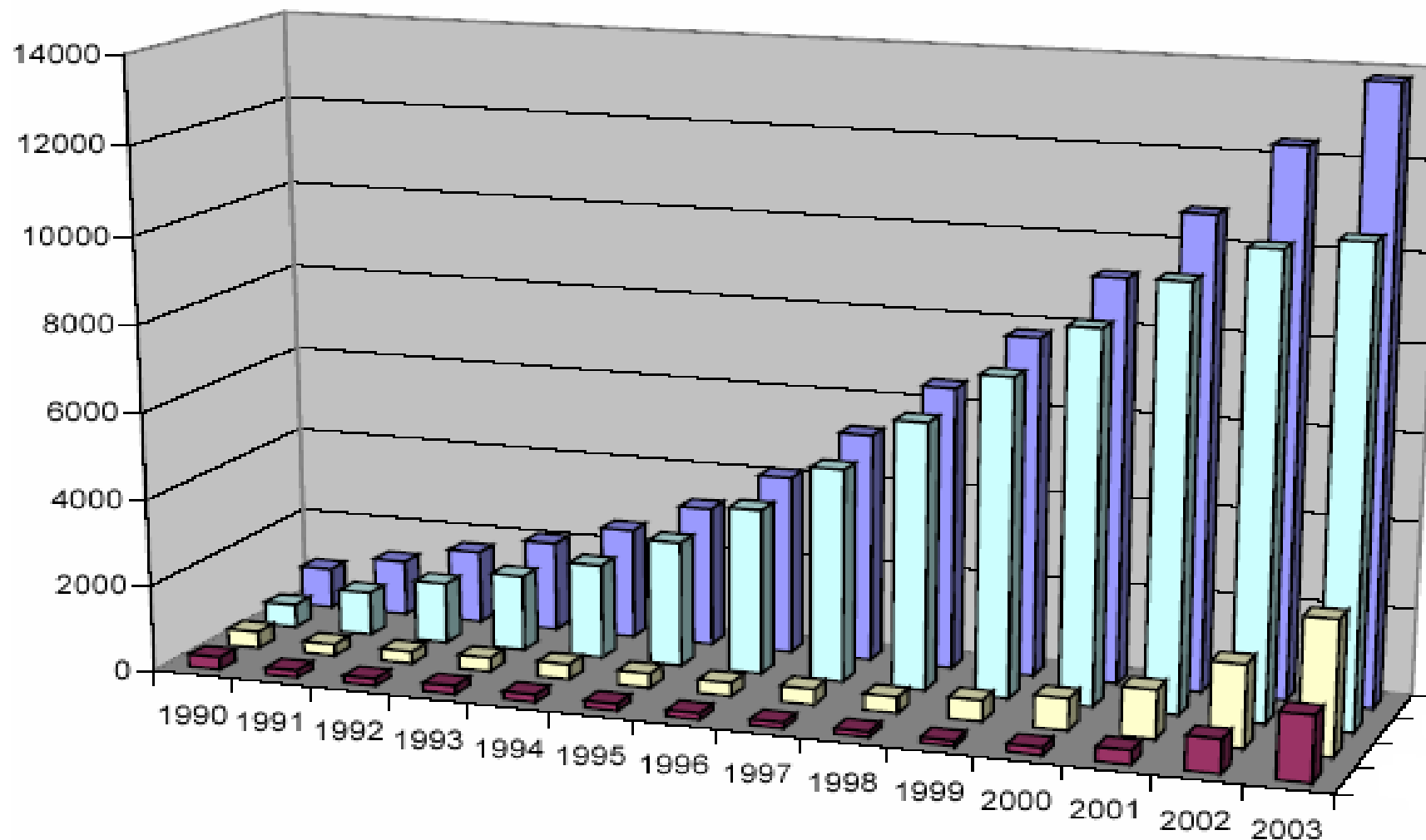
- Mortgage loan stock dynamics
- Savings tendencies
- Dwellings construction
- Other indicators

1. Mortgage Loan Stock



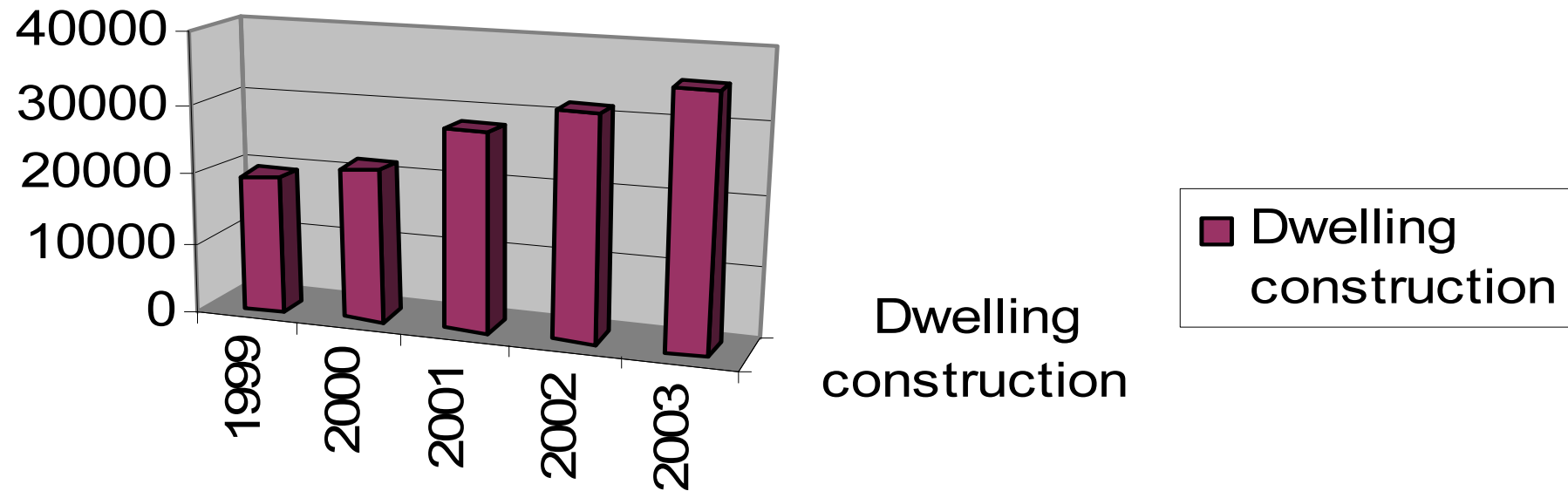
Households' Financial Situation

■ Household housing loans ■ All household loans ■ Net wealth of households ■ Household financial assets



Dwellings Construction

Dwelling construction



Other Indicators

- Financability of the average dwelling in 40% in 1999
71% in 2003
- Average price of dwelling:
3,7 Million Fts in 1999
9,3 Million Fts in 2003
- Rate of rents to value of the immobile 6%
- Home mobility equals 2

Wrong Concepts in Reforms

- There is lack of flats in Hungary
- Subsidy has to reach everybody
- We can reach aims without enhancing savings
- Subsidies aim to adjust economic cycles
- Enhance mortgage lending by providing extra profit for the banks

Consequences

- High budget discrepancies
- Situation of the low-income remained the same
- Saving of households dropped
- Expensive financing from abroad became necessary
- Cutting reforms made government unpopular - ? gov. In crises
- Housing question still „on-line”

Thank you for your kind attention!