Hungarian housing finance, 1983-1990
(A failure of housing reform)

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IN this paper we seek to summarise the transformations the Hungarian system of housing finance underwent in the past decade. The Housing Act of 1983 was a crucial point in moving away from the socialist housing model, and the 1989 regulations seem to be the last moves in closing a chapter of Hungarian housing history. In this overview, we do not discuss the issue of the rental sector (tackled in two recent papers: Hegedüs, 1989, and Hegedüs-Tosics, 1990/a), but concentrate on the economic aspects of the transformation of Hungarian housing finance. Although of no less importance, the sociological-political aspects of this transformation are not discussed here in detail (Hegedüs-Tosics, 1990/b).

Introduction: The social and political context of the Hungarian housing system

After World War II, the East European countries — including Hungary — were drawn into the Soviet Union's zone of influence and were inevitably led to adopt the Soviet economic model in which the living standards of the population were subordinated to the goals of economic growth.

In the first phase (1949-1956), housing production and consumption dropped practically to the minimum level. The chief task of the housing policy was to establish a network of organisations and legal institutions dominated by the state.

State control over the housing system affected both the demand and the supply. On the demand side, the strict control over incomes, and the political and legal property right limitations (nationalisation, 'one family-one flat' principle, the restriction on moving to towns or the closed city principle) were the main elements of regulation. On the supply side, monopoly of state enterprises, severe restrictions on private building (small-scale industry), complete abolition of speculative house building (building for sale), limited supplies of land and building materials, along with the complex licensing procedures were typical measures of state control. Together these factors enabled the state to concentrate a portion of the personal incomes previously meant for infrastructure development to be spent on industry development.

In this transformation, housing development was completely subjected to the requirements of economic policy. There evolved a network of councils, together with industrial enterprises controlled by the ministries, and a new banking system, the National Savings Bank, which were incorporated into the central planning system. Also incorporated into this decision-making system were the institutions of the so-called co-operative sector. Therefore, the housing types controlled by the formal institutions had to be regarded as state sector (that is "state provision"), irrespective of the fact that an enterprise, the NSB, or a co-operative, played the dominant role. The housing types remaining in the private sector (that is "private provision") consisted mostly of owner-built housing. Private transactions such as the sale or exchange of flats between individuals evolved in contradiction to the state-controlled system.

The considerable extent of state redistribution did not exclude the construction of private houses or private transactions from the system. Even in urban housing construction, not all loopholes could be closed, for example a rental black market and unlicensed building — even though the volume of these was restricted. House building in rural areas continued to be based on the efforts of the families themselves.

The socialist housing model described above has been modified since its introduction in the late 1940s. For instance, the period between 1956 and 1968 is characterised by concessions which were partly based on political considerations (the end of the Stalinist era) and partly on economic ones (such as allowing private housing to release tensions caused by the improductivity of state investment in housing in order to release tensions). The third period of the East European housing model was marked by the emergence of the housing factory technology in the early 1970s. Centralised decision-making and industrialised technology, as well as significant increase in state investment in housing, constituted the basis for the housing policy to which other sectors of the housing system like financing, land provision, building material supply, housing standards and building regulations were subordinated.

A model of East European housing finance in 1971-1983

In the East European housing model, housing finance is assigned a secondary role; it follows the decisions on the volume of new buildings, distribution among settlements, composition by technologies used, as well as by flat size and conveniences. The financing considerations are raised primarily as budgetary factors.

Housing finance actually has three sources: state budget, credits, and the resources of the population. The source of the budgetary appropriation for housing is derived from enterprise and state institutions outside the sphere of wages and income distributions.

There was a wide variety of central subsidies. Council rental flats were created entirely from budgetary subsidies. Homes built for sale (National Savings Bank — flats, state cooperative dwellings) were also given subsidies. Price allowances for the products of the state building industry were applied, which reduced the selling price. The social policy allowance introduced in 1971, and surviving to this day in an altered form, was granted to dependants of families involved in organised house building to reduce the downpayment. Another form of subsidy was the subsidised land use for which the council received only nominal amounts. Until 1983, these subsidies could only be used for state-provided housing.

The building loans were based on the savings of the population and distributed to various groups by the NSB — the only organisation in this field and thus in a monopoly position. This was complemented by enterprise loans, the granting of which was strictly regulated by legal means. In other words, the enterprises and other economic factors could give help only to housing forms sanctioned by the official housing policy and only to the extent prescribed by it.

When depositing their personal savings, the savers received no interest or negative interest in real terms. Accumulation under such banking conditions was possible because there was little opportunity to invest the savings into the economy. This constituted a kind of forced saving. House building loans were given for long terms (35 years) with low interest rates (1-3%). Credit policy systematically discouraged owner-building (in which builders themselves organise the construction process, and in most cases use their own or their family's work), with lower loan ceilings and higher interest rates. (For example, in the beginning, employer loans were not to be given for self-building at all.) Credit served as a sort of subsidy born in the difference between the low official interest rate and the "quasi market interest rate" (or inflation).

Privately acquired resources include personal incomes, direct savings, and in the case of self-building, the informal loans and help from friends and relatives. (This is very similar to the informal loan network used in some of the developing countries. See Boléat, 1985.)

The population pieced out the financial sources needed for building by adding their own work and the help of friends and relatives to their own savings. The volume of self-building indicates its significance in the Hungarian housing system: even in the 1970s, when state house building was maximal, self-building amounted to 40% of new building. This process, known as "kaláka", can be defined as an informal cooperation between families, lending work to each other for long terms. This served as a sort of mass response to the defects of the loan system (Hegedüs, 1988).

From the beginning of the 1960s, the system of housing finance can be described as "deeply subsidised". The overwhelming bulk of budgetary subsidies went to state housing, while private provisions (especially owner-building) were based on self-help and self-credit using a relatively small amount of NSB loan. The housing reform of 1971 introduced a multi-channel system that was designed to increase the population's contribution to state housing investment and to introduce the use of income brackets for the most heavily subsidised forms of housing. In spite of these reforms, the financial system remained essentially unchanged. After 1971, the dividing line between different channels of access to housing continued to be between state and private house building, illustrated by the data in Table 1.

Table 1: Financing sources of newly built homes in the state and private sector, 1973, 1979. In percentages.

	1973			1979		
	State	*Private*	*Total*	*State*	*Private*	*Total*
Budget	53	1	32	53	1	30
Loan	35	24	31	36	34	35
"Cash"	12	75	37	11	65	35
Total	100	100	100	100	100	100
Share	52	48	100	57	43	100
	(N=80123)			(N=81457)		

Source: Calculated from NSB reports. The data do not include the interest rate subsidy. At the same time, the budget components contain the cost of new rental flats. The "cash" contains the estimated amount of self-help work, as well (Hegedüs-Tosics, 1981, p.89) The "State housing" column in the table includes all types of new construction in which state institutions play a substantial role. Even NSB dwellings are categorised as state, although from a financial point of view they are considered in Hungarian statistics as private housing form.

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Table 1 shows clearly that housing finance is based on deep subsidies. In the state sector — with half of the newly built homes — the "cash" contributions by the population is an average 11-12% of the cost of the home as opposed to the 75% (in 1973) and 65% (in 1979) in owner-building. There is a similarly sharp difference in the role of the budget that the private sphere is given. The credit sector is somewhat more balanced, as was mentioned above, yet there are significant differences in loan to the detriment of self-building. These tendencies characterised the 1970s, though by 1979 a slight shift towards the private sphere could be felt when the credit sector began paying the price of inflation to prevent the drop in housing construction.

The "deep-subsidy" system can be characterised as follows:

- The state provision contains the new rental flats and the state-built condominiums sold through different "channels" that vary according to types of waiting list and financing. The private provision included owner-built housing.
- Within the housing sector, there is no "feedback mechanism" where prices play a fundamental role in financing. The loan terms are fixed administratively and are not influenced by what the builders would be ready to pay. In part, because of this, credit rating is nonsensical. Extending credits was not a financial decision, but was a right of citizen eligible to buy or build houses. They therefore have little in common with sound banking practices.
- Besides "real" housing shortages, a systematic shortage situation evolves when the solvent demand based on purchasing power for state homes exceeds supply. The overwhelming majority of families are able to afford the down payment of 11-12% from their earnings derived from the first economy. This shortage situation leads to the emergence of the dual housing market: the families squeezed off the state housing market try to find a solution in the second housing market. (The second housing market implies the sale of dwellings and exchange of rental flats besides self-building.) The source of solvent demand behind the second housing market is the second economy (usually defined as an economic activity outside the state sphere). Those most handicapped are those that are forced to find housing through the real estate market where no transaction credit is given and even a transfer tax (17%) is imposed. At the same time, however, the state subsidies are sold out indirectly. The lack of strict administrative control allowed builders and buyers to sell their homes built by the state or with state support.
- The spread of the second economy, based on agriculture (one of the central features of the Hungarian development in the '70s), had considerable influence on rural construction. The second economy has a strong non-monetary basis where the exchange of goods and services take place in-kind or in socially fixed proportions. In 1973 these exchanges (together with the cash contribution) covered 75% of the costs of new housing utilising their own resources, which essentially was a form of informal population lending. In 1979 these items acounted for 65% of the costs. The builders do not calculate costs at market value, so the magnitude of investment depends on the services obtainable in the informal sphere. With the increased significance of the second economy, increasingly larger homes were built in rural settlements.
- The ratio of house prices to wages is one of the most comprehensive indices of the housing system. Today the price of an average size new home is estimated to be 12 to 18 times the average yearly wage. In Hungary, however, budget redistribution has played a very important role in the financing system. As the selling price did not reflect housing costs, it is not correct to compare ratios calculated on this basis with that of other systems. If 35-40% of the cost (price) is covered by the state budget (see Table 2), we should reduce the housing price by 30-40% to get a more realistic, comparable value. The other thing which can be important is the distribution of prices and wages. Because of the dual economy, these values are hidden in the averages. On the supply price, there was not a unified market where the prices tend to merge because of the lack of feedback or price-signal. It is also true that the wages differ dramatically according to access to second economy sources. When this ratio is calculated, it is not possible to include second economy incomes. According to estimates, the second incomes have accounted for 15-20% of the national income in 1982 (Sik, 1987, 86.o.)

The 1983 Housing Act — an ambiguous move towards a more market-type solution based on long-term loans

Towards the end of the 1970s, signs of the budget crisis could already be noticed, and it left its mark on housing policy. Since the mid-1970s inflation has affected the building industry and the real estate market more heavily than other sectors of the economy. This is partly due to internal actions (ineffective use of foreign loans) and unfavourable circumstances in the international economic sphere (deterioration of the terms of trade because of the rise of oil and raw material prices).

By the end of the 1970s, the position was taken by housing policy-makers that the financing system must be transformed to make the housing system more effective. The positive direction was shown by private and self-building which had produced good-quality dwellings with minimal state subsidies. The propositions suggested that state house construction could be replaced by increased support for private house building. Some measures were taken in this direction at the end of the 1970s (land regulation, improving of borrowing terms for private building, etc), but the real breakthrough came with the Housing Act of 1983.

1. The Housing Act of 1983

The new housing policy practically abolished the system of deep subsidies based on the gap between the state and private sector. The new housing policy gradually revoked the large budgetary subsidies granted to state-provided housing and the discriminatory treatment of private housebuilding.

The new Housing Act expanded the eligibility conditions of the state subsidies to the private sector. As for budgetary subsidies, social-policy allowances were also given to self-builders. The disadvantageous credit conditions of self-building were erased and, in theory, builders in the private sector were also eligible for employer loans. Bank credit (though with smaller allowances) was obtainable for private builders and real estate transactions. Local council grants were introduced, which meant an interest-free loan or lump sum grant could be given by local councils. It also became possible to use council or state resources for preparation parcels for owner-built housing.

Several elements of the newly introduced system of subsidising depended on the size of family (number of dependants); thereby the changes can be interpreted as a move towards a subsidy system with a more welfare-conscious character.

One of the central features of the Housing Act of 1983 was that it passed the growing burdens of the housing economy not directly on to the population but largely to the subsidised credit sector. Therefore the surplus costs caused by rising inflation would have to be paid by a future generation. Between 1981 and 1985 the share of credit in the total costs of housing rose to 46% from 27% in 1971-73. The relative burden of the budget decreased while that of the population remained unchanged (Table 2).

Credit is a special type of subsidy whose cost does not appear immediately but takes the form of interest subsidy over the years after the issue of the credit. Thus the increase in the share of credit meant the increase in the future engagement of the budget. Some signs of this were already discernable in the early 1980s: while in 1970-71 the interest rate subsidy amounted to 9% of the budgetary spending, it rose to 25% in 1980-85. But the real explosion occurred later, by the end of the 1980s, when this share increased to 64% of the total budgetary spendings on housing.

2. Impact of the new housing policy on housing market processes

Restructuring the system of subsidisation entailed serious consequences to the construction industry. The state building industry, organised to mass-produce housing such as rental flats and NSB housing (in housing estates), lost its monopoly position within the finance system when the obtainable support for preferred one-family houses substantially increased, gradually equalling subsidies for state housing. Though certain institutional factors delayed the crisis of the state building industry, it was eventually unavoidable. The housing policy, which was influenced strongly by the finance ministry, "sacrificed" the state building industry by cutting the indirect subsidies from the state budget. As a consequence, the problems of the state construction industry increased substantially and some of the big housing factories had to close down.

The budget and the loan sector try to keep abreast of inflation, increasing subsidies, yet the lag continues to grow. In 1983-86 these measures were sufficient for the growth of private house construction to make up for the decline in new state housing. After 1987, private building came to a halt at the same time state house construction underwent an accelerating decrease.

Yet the radical transformation of the subsidy system failed to meet expectations. One explanation for that failure may be that the institutional framework of production did not react to the changes in demand, and also the supply was inflexible to respond to the increase in demand. The data bear this assumption in that the growth in housing construction was only temporary and the rise of prices became much more substantial and continuous (see Table 4).

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Table 2. The burden on the state-budget, loan sector, and population from 1971 until 1985 in the housing sector (in billion HUF)

	1971-75	*1976-80*	*1981-85*
State-budget:			
Flow subsidy (new public rental flats)	31.4	50.7	34.0
Social and other support	14.2	24.2	25.0
Interest rate subsidy	4.5	9.5	20.0
Total	50.1 (37%)	84.4 (36%)	79.0 (24%)
Loan sphere:			
NSB-loan	33.0	66.6	132.0
Employer loan	4.6	10.5	20.0
Total	37.6 (27%)	77.1 (33%)	152.0 (46%)
Population	49.1 (36%)	72.3 (31%)	102.0 (31%)

Source: Background study for the preparation of the housing reform, Ministry of Finance, 1987.

Table 3. Dwellings built by the state sector (enterprises and co-ops) and by the private sector (self-built and artisan built)

	State sector	*Private sector*	*Total*
1980	51,512	37,553	89,065
1981	42,458	34,517	76,975
1982	41,383	34,173	75,556
1983	37,674	36,540	74,214
1984	31,319	39,113	70,432
1985	33,557	38,950	72,507
1986	27,478	41,950	69,428
1987	24,323	32,877	57,200
1988	18,104	32,462	50,566

Source: Housing Statistics 1980-89. Central Statistical Office, Budapest.

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The failure of the 1983 Housing Act, boosting prices rather than building, is attributable to two basic causes, based on the above hypothesis:

(a) There were systematic supply-side obstacles hindering the building of one-family houses. First, there were shortages in the building materials market prevailing between 1983 and 1986. Also, the supply of land did not increase dynamically enough. Without adequate resources, the parcels offered for building increasingly lacked basic infrastructure and these costs were pushed on to the builders. A lift on building bans was protracted when political prejudices and interests interceded, further slowing the spread of self-building. However, the basic hindrance was the peculiar social structure of self-building. House building in this sector depends not only on money inputs but also on non-monetary relations necessary to create "kaláka" or informal network financing. These social relations cannot be established quickly and cannot be expanded flexibly. In economic terms, this means that the demand flexibility of production is less than one. A market-type building appears in the owner-building sector when the "kaláka"-type working relations are replaced by relations expressed in monetary terms. However, because of the limits to entrepreneurship, this sphere failed to expand efficiently. The increase in demand was met by increasing the prices but not production. (In the building trade, the wages in the second economy tripled between 1979 and 1988, while nominal prices doubled.)

(b) State building enterprises also could not respond to the changes in demand. Their decline, however, was gradual since, as seen above, the private sphere was also unable to react flexibly to the transformation of the system of subsidies.

State building firms tried to build one-family houses out of prefabricated slabs, but their prices were not competitive with those of self-building.

To summarise, one possible explanation of the failure of the 1983 Housing Act was the inflexible supply facing the restructured financing system and changed demand. This, in turn, increased the prices and inflation rather than boosting housing production.

In addition to the mentioned reasons, the inflation of construction costs was also caused by factors outside the housing system: primarily the increasing budget crisis starting in the 1980s.

3. Increased tensions in housing finance in the second half of the 1980s

It was a new problem from the early 1980s that the repayment of the increasing loans required second economy incomes which the NSB was unable to assess. In theory, individual credit granting began, but in practice it did not work as most people were granted maximal allowances. It was a new task to direct the applicants for council flats — ie the lowest-income stratum — to the private sphere.

The decline of house construction and maintenance accelerated toward the end of the 1980s, and it became increasingly clear that the financing system introduced in 1983 was untenable. The loan supply for housing was practically exhausted: the personal savings increased more slowly than the amount of outgoing credit.

1989-90: Introducing constraints on demand in housing finance

Several significant changes were introduced in 1989-90 that can collectively be regarded as a new housing act. The modifications were partly elicited by the need to cut budget spending on housing. As a result of the 1983 housing policy, which focused on boosting demand, there

Table 4. Building costs in the state sector

	Building cost	*(1980 = 100)*
1980	7,828	100
1981	8,190	105
1982	8,784	112
1983	9,987	128
1984	10,722	137
1985	11,962	153
1986	12,914	165
1987	14,282	182
1988	16,062	205

Source: Housing Statistics 1980-89. Central Statistics Office, Budapest.

was significant regrouping in government spending on housing: compared with the support given to new house construction, the rate of the grants given to the existing housing stock increased, with the largest item being the interest rate subsidy for loans issued some years earlier. Due to inflation, this support continued to grow, amounting to over 50bn HUF or 64% of the budgetary appropriation of 81bn HUF for housing in 1989.

The rationale for the changes of 1989-90 is that the support of demand gives way to the monetary restriction of demand. In 1988, a new loan system was introduced based on the principle that the interest rates of loans given for house building (earlier having fixed interest rates) are determined by a maximum set by the NBH (National Bank of Hungary) and this rate can be adjusted from year to year. (In 1989 the interest rate was 18.5% + 1% fee, and was increased to 24.5% + 1% in 1990.)

Two new principles are being introduced with the new system of housing finance which were missing from the previous period (1983-90): First, central support such as social policy allowance and preferential loans can most probably be granted to first-time buyers, and, second, these grants can only be given for flats that do not exceed standard sizes. Buyers of vacated flats can obtain these subsidies only in cases when several conditions are fulfilled, the most important of which are that the seller buys a new flat built in organised form and sells his previous flat through the same company or organisation from which he bought his new flat. Provided that these conditions are satisfied, the budget takes on only part of the loan burden.

At the end of 1989, the government tried to reduce the budget expenditure on housing related to the existing housing stock and not justified by social-policy considerations. The government proposed a 100% rent increase but only an average of 35% was accepted. After long debates the parliament accepted the other proposal of the government, to levy a tax on outstanding loans granted at fixed interest rates in an attempt to reduce the interest rate subsidies from the budget. Monthly repayments were increased by 50% in case of loans which were issued 5 to 10 years ago, and by 100% in the case of loans issued more than 10 years ago. All these measures were introduced in such a way that the modification of the original loan contracts became unnecessary. Parallel to those measures, a social subsidy system has been introduced for families below the poverty line and for families with many dependent children. Some months later, in March 1990, however, upon mass social pressure, the newly established Constitutional Court rejected the tax on outstanding loans.

After the first free elections, in May 1990, Hungary has a new government. For the new politicians it must be clear that the system of housing finance faces several important problems.

Firstly, the vast majority of budgetary spending on housing goes to social groups whose social position does not justify it. This leakage from the housing systems (Bokros, 1989) must be tackled by the new administration because Hungary is not so rich that such great spending could be borne for the benefit of the middle class. Secondly, the housing finance system must be further improved with arrangements that adapt this system to the economic policy.

The withdrawal of demand subsidies (raising the costs of loan, increasing the rents) must be accompanied by the introduction of a system of social support: the rising of rents and the compensation for the interest rate tax must be conditional upon the income level (first-time buyers can also be subsidised). Yet the concentration of grants for the lowest strata of the housing system is practically thwarted by the resistance of the middle strata. The middle income group has been able to fight or considerably reduce government measures, such as rent increase or the tax on outstanding low fixed interest loans. Socially justified subsidisation is very limited, and, consequently, a considerable portion of the population is faced with ever growing financial difficulties. Thus the introduction of a new housing finance system and new rent regulation, supplemented with a completely new system of social allowances, is at least as serious a political task as it is difficult from a technical point of view. ■

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APPENDIX: DESCRIPTION OF SOME BASIC FEATURES OF THE PRESENT SYSTEM OF HOUSING FINANCE IN HUNGARY

The present system of subsidies in financing the purchase and construction of housing was introduced on January 1, 1989. On February 1, 1990, this system was modified. This description is structured into three parts: the new mortgage loan system and the subsidy system, tax allowances, and the system of subsidised construction period loan.

I. The types of subsidies tied to buying and building homes

1. General rules of loans and eligibility criteria for subsidies

Families are qualified for subsidies if they have no dwelling of their own (they are not owning and not renting any housing) and the standard of the new home is socially acceptable (in terms of size and cost).

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The new home must not be bigger than the "maximum demand of the family plus one room" (the maximum demand of the family means a dwelling with x/2 + 1 rooms in the case of a family of x persons). Another criterion for the new home is that its cost must not be higher than two and a half times the average building price of a dwelling in the given county with the size equalling the minimal demand of the family (the minimum demand of the family means a dwelling with x/2 rooms in the case of a family of x persons).

These rules must be applied to the state subsidised loans, entrepreneur loans/grants and local council loans/grants.

2. Types of subsidies tied to buying and building homes

A. Up-front subsidies
- social (children) allowance
- "first-time buyer subsidies" for young couples
- local council grant
- employer grant

B. Repayment subsidy on mortgage
- dependant subsidies
- general subsidies

C. Interest-free loans
- local council loan
- employer loan.

The so-called budget-sensitive subsidies (the social allowance, first-time buyer subsidy and dependant subsidy for repayment) are available only for qualified families if they buy a new flat/house or build their new house/dwelling by themselves, or buy an old house which was sold by a family moving to a new house. The latter transaction should be "organised exchange", ie organised by a financial institution: the NSB, bank or state real estate agency. If a family acquires new housing on the market, families buying their previous dwelling are not entitled to subsidies (this is the heavily debated Decree No 106/1988 of the Council of Ministers). Thus families taking part in "organised exchanges" — buying a dwelling from a financial institution and selling the previous dwelling to the same institution — get more subsidies. The other advantage of this form is that the seller can stay for a while — the period of construction — in its old home, which is very important in a country where there is no real rental sector, ie the supply of vacant possession is low. These subsidies are not available in the second-hand market, not connected to new building. (The only exception is that in small villages the deserted, vacant homes can be bought with subsidies.)

A. Up-front subsidies

1. Social (children) allowance

Buyers or builders of houses can get social (children) allowance for their dependent children — and other dependent family members — living in their households. This subsidy can be given once for each child. The amount of the subsidy is as follows:

After one child	50,000 HF
After the second child	150,000 HF
After the third child	400,000 HF
After each child above three	100,000 HF
After each other dependent adult plus	30,000 HF
Child born or adopted after buying	50,000 HF

For childless young families the banks advance the social allowance for a maximum of 2 children, who have to be born within six years of each other. In this case, the government budget reimburses the NSB (or banks); if not, the family have to pay the money (increased with interest) back to the NSB (or banks). A crucial feature of this subsidy form is that it functions without any income test.

2. 'First-time buyer' subsidy

This type of subsidy was introduced in February 1990. The amount of this lump sum subsidy is 150,000 HF, which is given for young families, in the case of which both parents are under 35 years and have never had any kind of housing of their own.

3. Local council grant

This grant can be given to families in need from the local council budget. The eligibility rules have to be set in local council decree.

4. Employer grant

State or private companies co-operatives can provide grants for their employees or members from their net (after tax) profit. There is no limit on the sum.

B. Repayment subsidies

Loans originated by the NSB, Saving Co-ops or any commercial banks are adjustable interest rate loans (replacing the previous fixed interest rate loans). There is a system of repayment subsidies introduced, because the near market level interest rate is too high for many families.

1. Loans with special subsidies for families with children

interest rate	18.5% (in 1989) 24.5% (in 1990)
fee on loans	1%
longest maturity	25 years
	Upper limit (70% of the selling price deducted by the social allowance).

The amount of subsidy depends on the number of children and is calculated in the percentage of the monthly installments as follows:

	How many years have passed since the issuing of the loan		
	1-5	6-10	11-15
family with 1 child	40	20	15
family with 2 children	70	35	15
family with 3 or more children	80	40	15

That is, a family with two children has 70% reduction in monthly repayment in the first five years, later only 35% and after 10 years only 15%; finally, after 15 years no more of this type of subsidy can be taken into account.

There are upper limits for the total amount of loan for which loan-repayment subsidy can be given:

family with 1 child	300,000 HF
family with 2 children	400,000 HF
family with 3 or more children	500,000 HF

Each family is entitled to this special loan-repayment subsidy once. After 1 July, 1991, only those families can get this subsidy who made at least 1,000 HF saving for housing purposes for at least one year. After 1 July, 1992, this prerequisite is for two years' saving and three years later the final system will be introduced in which five years' saving is required.

2. Special loans for families with savings for housing

There are some special housing saving forms for which special supplementary loans are available. The subsidy for repaying these special loans calculated in the percentage of the monthly instalments is as follows:

	1-5 years	6-10 years	11-15 years
subsidy for supplementary loan	70	40	15

Period of presaving contract	Amount of supplementary loan in percent of presaved amount under 35 years	above 35 years	Upper limit
5 years	60	120	200,000 HF
6 years	80	140	250,000 HF
7 years	100	160	300,000 HF
8 years	120	180	300,000 HF
9 years	140	200	300,000 HF

There are other special forms used for adults without family.

3. Loans with general subsidies

This subsidy is given to the repayment of all other types of housing loans (including the loans taken for market transactions; in the case of which, however, NSB is giving this loan for five years), except of building or buying the second etc flat of one family. This loan can be added to the other types of loan as a supplementary.

interest rate	18.5% (in 1989), 24.5% (in 1990)
fee on loans	1%
longest maturity	25 years

	1-5 years	6-15 years
subsidy for supplementary loan	30	15

4. Loans given on market interest rate without repayment subsidy

For families who already have a flat or are building/buying a flat exceeding the size or cost limits and, in some other cases, only loans with market interest rate without any repayment subsidy are available. The conditions are as follows:

interest rate	20% (in 1989), 26% (in 1990)
fee on loans	2%
longest maturity	10 year

upper limit is determined by the household ability to pay.

C. Interest-free loans

5. Local council loans

This interest-free loan can be given to families in need from the local council budget. The eligibility rules have to be set in local council decree.

6. Employer loan

State or private companies and co-operatives can provide interest-free loans for their employees or members from their liquid assets. There is no limit on the sum.

II. Tax allowances

According to the Act of Personal Income Tax (Section VI, 1987) the interest on special housing deposits is tax free, and the amount of tax can be deducted by 20% of housing savings (maximum 36,000 HF per year). Interest payments on housing loans taken by individuals are not deductible from income for calculating the personal income tax liability.

III. Building period loans

The Hungarian National Bank gives refinancing loans for banks which are financing housing construction. The conditions of this refinancing loan are very favourable: the interest rate is 17% and management fee is 1.5%. There is also an interest subsidy paid by the budget available, the amount of which depends on the length of the construction period.

The construction is finished within	Interest rate paid by the builder	Interest rate subsidy
1.5 year	4.6%	13.9%
1.5-2 years	7.4%	11.1%
2-3 years	13.9%	4.6%
after 3 years	18.5%	—

The general shortage of refinance means there is a huge shortage in these loans. The NSB had, until last year, a sort of monopoly to acquire it for its own housing construction activity. (The NSB is an institution combining both bank services and developer activities.)

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