



Annual Report on Housing Poverty

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Dóra Fanni Csepregi

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Back to firewood?

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Introduction

Dear reader,

Habitat for Humanity Hungary publishes its **Annual Report on Housing Poverty for the eleventh year running**. [Last year's report](#) took a thirty-year overview (from the 1989 regime change onwards) on housing policies and government expenditure on housing, and the history of the housing movement – this year we return to our habitual structure, assessing the status of housing poverty over a one-year period from a point of view of policy and budgetary changes as well as housing affordability. The report thus provides a reference point on housing poverty in Hungary and covers thematic issues in separate chapters – this year, for example, amid the deepening energy crisis there could be few more pressing issues than household solid fuel heating, with firewood predominantly being the fuel of the poor.

The year 2022 is characterised by multiple, deepening crises – the impact of the energy crisis, spurred by Russia's aggression against Ukraine as well as other geopolitical and global economic trends, is only aggravated by the cost-of-living crisis and the high inflationary environment. The governmental crisis response in Hungary – the [overhauling of the utility cost reduction](#), a policy capping electricity and gas prices, in July – continues to hit vulnerable groups hardest, such as households living in detached family homes in rural areas, or in municipal social housing, or those that rely on firewood for heating.

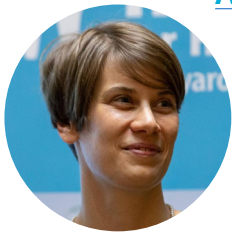
Habitat for Humanity has been long advocating for a reform of the utility price reduction through a set of socially targeted policy proposals such as carefully calibrated price bands for energy, the (re)introduction of socially targeted subsidies, including a housing allowance from the central budget, and the introduction of large-scale state-subsidised energy efficiency renovation programmes that reach poorer households. Those relying on solid fuels to heat their homes – predominantly in the lowest income group – find themselves in a particularly difficult situation, detailed in the report's chapter titled **'Back to firewood?'**

The year 2022 also marks a turning point in public housing policy – amid the deepening multiple crises, with the lifting of Covid-19 crisis measures (such as the moratorium on loan repayments and foreclosures), the tightening of fiscal space, and the absence of socially targeted housing policies, we can reasonably expect the housing crisis to further deepen, dragging even larger sections of the middle class into housing poverty. It is along these lines that the first two chapters, penned by experts from the [Periféria Policy and Research Center](#), explore **public housing policies and government expenditure on housing, and the tipping point in housing affordability**.

Apart from research and policy proposals, Habitat for Humanity's response to the housing crises also includes field programmes, such as renovating municipal social housing units or carrying out minor renovation works in cases when immediate intervention is needed, cooperating with municipalities and local actors, and the construction of modern and cost-effective stoves ([Heat Columns](#)). Our work is funded by a diverse range of donor and institutional sources – please consider supporting our work by [making a donation](#) or joining us as a [volunteer](#).

Lili Vankó,
Advocacy manager
Zsolt Szegfalvi,
Executive director

About the Authors



Anna Zsófia Bajomi is a social policy and energy poverty expert. She is currently completing a PhD programme at the Polytechnic University of Milan, where her research investigates whether EU energy transition policies can improve the situation of energy poor households in Hungary that use solid fuel heating. She's been previously involved in preparing social urban regeneration programmes, as well as in EU projects aiming to alleviate housing issues. During her traineeship in the European Parliament, she worked on the [Energy Poverty Handbook](#).



Márton Czirfusz is a geographer, a co-founder of Periféria Center, an external researcher at the Centre for Economic and Regional Studies, as well as a member of the Working Group for Public Sociology 'Helyzet'. His research focuses on the analysis of socio-spatial inequalities in Hungary, including housing policy and housing-related issues. He completed his undergraduate and doctoral studies at the Eötvös Loránd University in Budapest.



Dóra Fanni Csepregi is currently pursuing a Master's degree in Sociology at Eötvös Loránd University. She is a member of Periféria Center and is also active in the housing working group of the [Solidarity Economy Center](#). She is a former activist of the housing advocacy group The City for All (A Város Mindenkié – AVM), a lecturer at the [School of Public Life](#) and a former member of the College for Advanced Studies in Social Theory (TEK). Her interests include non-profit, alternative housing solutions, the interface between solidarity economy and trade unionism, and spatial-social inequalities.



Nóra Feldmár is a policy and advocacy officer at Habitat for Humanity Hungary. Her focus is on energy poverty, including statistical analysis, research, policy proposals and practical field programmes such as the installation of [innovative and efficient wood-burning stoves](#) or the renovation of mudbrick houses. She holds a Master's degree in Industrial Ecology (MSc), a BSc in Design, as well as a qualification as a stove fitter.



Márton Czirfusz

Public housing policies and government expenditure on housing

Public housing policies and government expenditure on housing

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

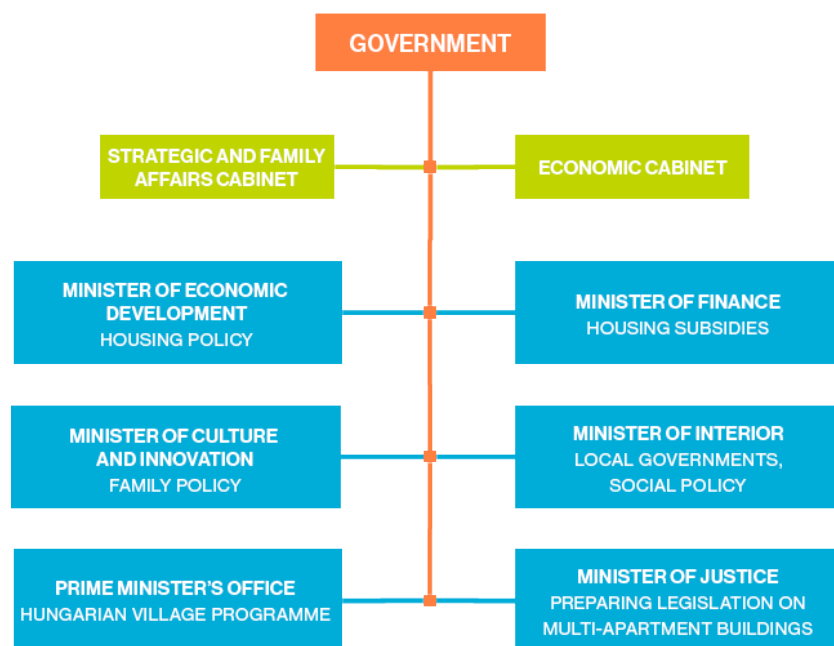


Figure 1: Ministers responsible for housing (2022)

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

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

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.

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.

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

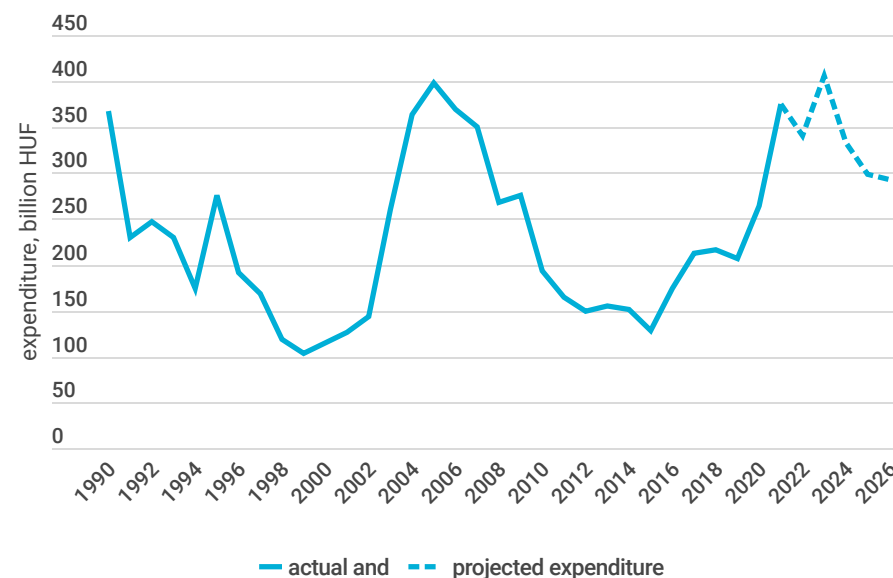


Figure 2: Expenditure of the 'Housing subsidies' budget line
billion HUF, at 2021 prices, 1990–2026

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.

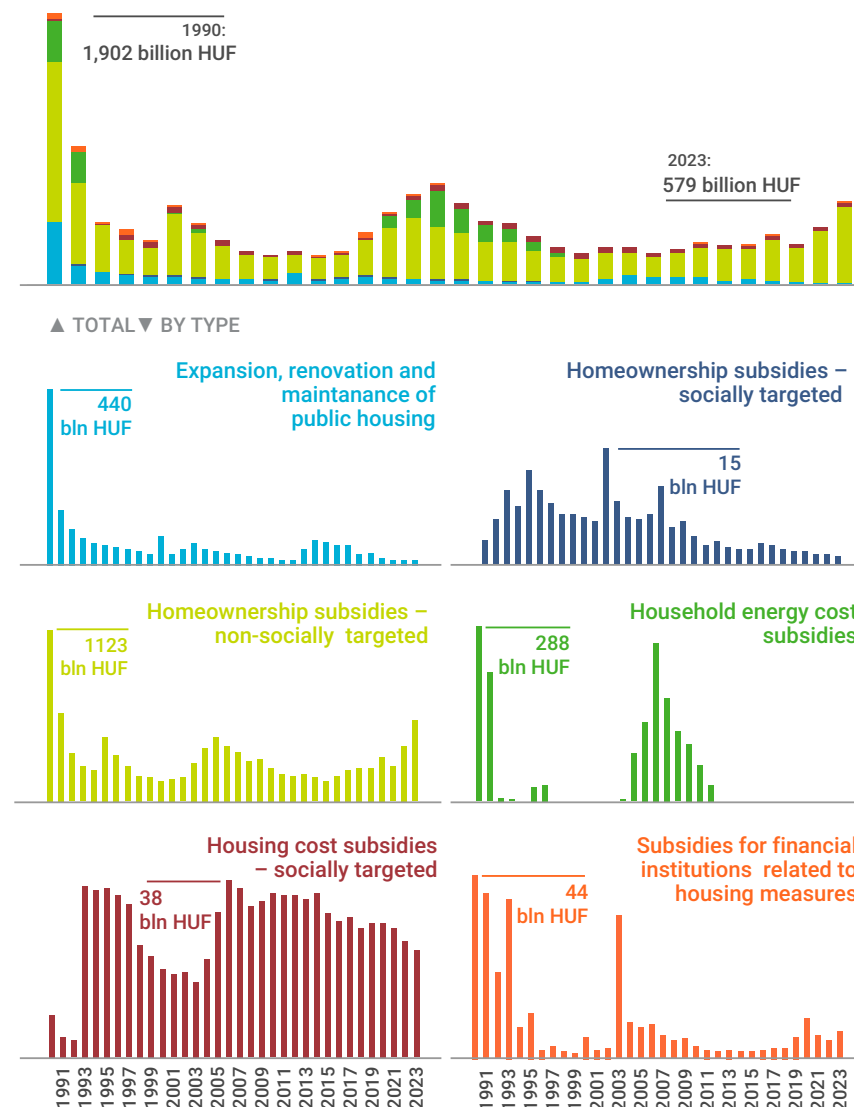


Figure 3: Government expenditure on housing
billion HUF, 2021 prices, 1990–2023

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

A photograph of a three-story apartment building. The building has a light-colored facade, possibly white or light grey. Each floor has a balcony with a black metal railing featuring a diamond-shaped decorative pattern. The windows are rectangular and some have white frames. The ground floor has a different color scheme, with a yellowish-beige wall and a white door. The overall appearance is that of a multi-unit residential building in an urban setting.

Dóra Fanni Csepregi

A turning point in housing affordability

A turning point in housing affordability

Dóra Fanni Csepregi

(Periféria Policy and Research Centre)

The original manuscript was completed on 5 October 2022. Posterior developments are not part of the analysis.

In recent years, **housing has become increasingly difficult to afford** for many and has thus become part of the public discourse. Housing affordability entails several intersecting factors that should be considered together. These include the affordability of buying or renting a home, housing costs, indebtedness of households and their exposure to energy poverty, the number of evictions, and the overall direction of housing policies that address all these issues.

Since the [change of regime](#), Hungarian **government policy has focused primarily on supporting the upper and middle classes' ability to buy a home, while other aspects of housing affordability**, which mostly affect the lower strata of society, **have been ignored**.

We have reached a turning point in housing affordability in the summer of 2022. The **economic and energy crisis**, which have had a significant impact on household housing costs, as well as Russia's **war** against Ukraine appear to be protracted; **credit conditions** are unlikely to ease in the near

future; and **construction prices** are unpredictable and rapidly increasing. In addition, with the lifting of the moratorium imposed due to Covid-19, **property auctions and evictions** have resumed since 15 June 2022.

1. Affordability of buying a home

The primary way to access housing in Hungary is to buy a home. In 2020, **86% of households owned their home**, and all but the lowest two income quintiles had a homeownership rate above 90%. This dominance of house ownership can be attributed to several factors, which are discussed in detail in Habitat's 2021 Report, [providing a 30-year historical overview](#).

Real estate prices in Hungary have increased at an exceptionally fast pace compared to regional and European averages. While **in 2021**, the **annual growth rate of house prices in Hungary rose from 5.9% to 13.4% in real terms** compared to the same period of the previous year, the average in the

other Visegrad countries rose from 6% to 9.6%. There are both general and Hungary-specific reasons for this increase. The main driving factors include financialisation. One aspect of this is that **the share of house purchases as an investment has also increased** in the Hungarian property market, as discussed in [Habitat's 2020 Housing Report](#). Investors tend to buy in the most profitable areas, which leads to the polarisation of the housing market, increasing territorial disparities and widening wealth and income gaps.

Among the Hungary-specific reasons for the rise in housing prices, the government's housing subsidy policy is to be highlighted. As a result of its housing policies, **the government has contributed to the increase in housing prices** in recent years through **direct state support facilitating the purchase of homes as well as through subsidised loans**, which are described in detail [in the governmental expenditure section of this report](#). Housing policy focusing on long-term public interest could curb house price rises and could act as a brake on investment in the housing market. Furthermore, **subsidised loans are only accessible to a limited group of people, and thus do not improve access to more affordable housing on a large scale.**

Housing affordability can also be analysed by **comparing changes in real incomes and house prices**. According to Hungarian Central Bank (MNB) data, Hungary has seen a steady increase in nominal house prices since 2015, reaching a record high in 2021. **House prices rose by 21.4% in Q4 2021 compared to a year earlier.** The same increase was only 8.9% between 2019 and 2020. The house price boom has pushed **house price overestimation to an all-time high of 18% on average** across the country, according to estimates by the Central Bank, which means that **house prices have increased this much faster than household disposable income.**

Therefore, due to the lack of available non-profit rental housing, people normally try to secure housing either by taking out loans or by looking for options on the private rental market.

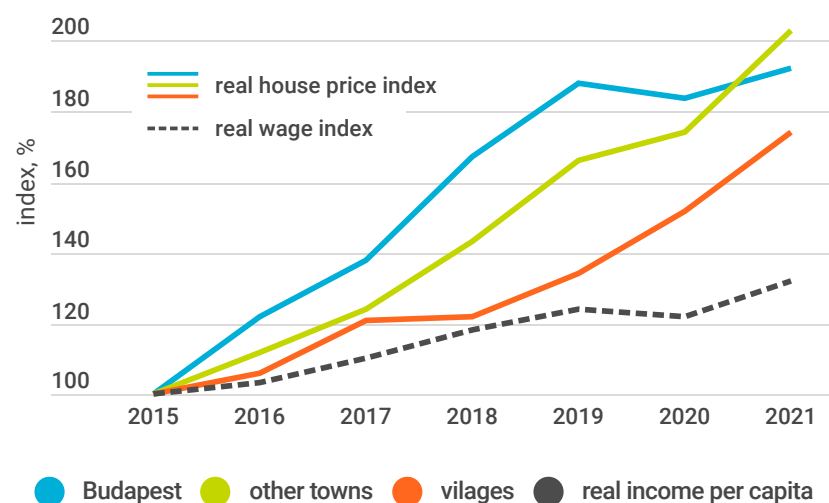


Figure 1: Real house price index in Budapest as a function of the real wage index (2015=100)

The author's calculations are based on data from the [HCSO](#) and the [Hungarian Central Bank](#). Housing price indices are based on Q4 data for each year.

2. Housing loans and personal loans: the risk of over-indebtedness

As house prices rise, the number of people able to afford to buy a home on their own is shrinking. **Borrowing is on the rise and loan amounts are increasing steadily.** Furthermore, the impact of tighter lending rules after the 2008 crisis has made **bank loans less accessible to the lower classes of society**, so, they are now more likely to take out small **personal loans** with simpler and faster approval procedures, **typically from non-bank financial institutions.** The **use of personal loans for housing purposes** is also becoming increasingly common, especially the so-called ‘**baby-expecting loans**’.

The income gap in relation to borrowing is also reflected in the Hungarian Central Bank data. **A significantly higher proportion of borrowers of recently issued housing loans and personal loans by credit institutions are high earners:** 60% of those taking out a housing loan in 2021 and half of borrowers of personal loans from a credit institution are in the top income quintile. The opposite trend is observed concerning **borrowers of personal loans from non-bank businesses, where the lowest income quintile is over-represented.**

From the aspect of affordability and accessibility, **the widening gap between market and subsidised housing loan interest rates** requires particular attention and will become even wider with the rapid increase in the Central Bank’s base rate. **This further increases the disparities between those having access to subsidised loans** (mostly wealthier families with several children) and **those excluded from subsidised loans.**

Borrowing is also one of the causes of households falling into a debt spiral. The rapid rise in interest rates (which directly affect those with variable-rate loans after the lifting of the interest rate freeze) and the end of the moratorium on loan repayments introduced due to Covid-19 also

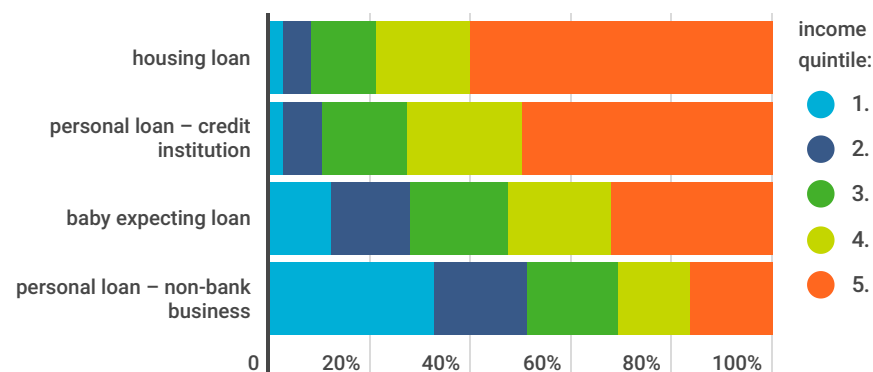


Figure 2: Income distribution of borrowers

Source of data: Hungarian Central Bank ([MNB](#))
Loans issued in 2021. Limits of income quintiles based on 2020 data (MNB).

pose a high risk of over-indebtedness, even if a household is not directly in arrears. **The pool of people potentially falling into the debt trap is therefore much wider, and could grow even further in the future.** Rising utility bills, overdrafts, personal loans, and small debts to telecommunication companies and internet service providers is also a problem in the current inflationary, uncertain economic climate. **As the social care system does not provide any meaningful assistance when it comes to market debts, these types of debts can lead to loss of housing.** Without **targeted support** and a ban on **eviction without subsequent placement**, these processes can lead to the indebtedness of large swathes of society and ultimately to people being evicted and put on the street.

3. Affordability of the private rental sector

The private rental sector accounts for about one-tenth of the housing stock and is highly unregulated and increasingly unaffordable compared to incomes. **The number of people living in private rented accommodation is steadily rising, especially among young people.** According to data from the Hungarian Central Statistical Office (HCSO), 30% of young households (under the age of 35) lived in private rentals in 2015 (this value is 38% in Budapest), compared to only 8% of the total population.

The unregulated legal environment discourages landlords from renting out long-term, which further restricts the supply of rental housing. This, together with the issue of increasing the predictability and security of the private rental market was addressed by Habitat in its 2020 'Black Housing' recommendation package.

In 2020, the pandemic led to a temporary fall in rental prices but did not last in the long term: **private rental prices have been rising steadily again since February 2021.** According to HCSO data, in January 2022, there was a **15.1% increase nationally** and a 15.7% increase in Budapest compared

to the first month of the previous year. This situation raises issues beyond the obvious problems of affordability.

The rapidly **rising base rate, which reached 13% at the beginning of October 2022 is also pushing up commercial bank interest rates, so fewer people are likely to be able to borrow** in the coming years. In the absence of alternatives, this will generate an increase in demand and thus more pressure and potentially further price increases in the private rental sector.

Society's upper classes, which own proportionally more property, are the winners of an increase in house prices, as the value of their property increases. As the logic of financial markets gains ground in the housing market, **housing is becoming increasingly expensive and thus, social inequalities in terms of housing affordability are growing.** People without private property **are caught in a vicious circle: in the absence of available social housing, they are trapped in the private rental sector, with its extremely limited supply and high demand, which is unaffordable for them due to their typically low-income levels.**

4. Utility costs

Utility costs are also an significant source of affordability problems and indebtedness. **The poorest households spend 23% of their income on housing and household energy**, while those in the highest income decile spend only 15% of their income on it. Other housing-related costs (such as mortgage debts) are not included in these calculations but pose a further burden.

Records on utility arrears are kept separately by the different service providers, making it difficult to obtain an overall picture of debts. However, according to [Eurostat data](#), **about 10% of Hungarian households were affected by the accumulation of utility arrears in 2021, while this proportion reached 27% among those living below the poverty line.** This also means

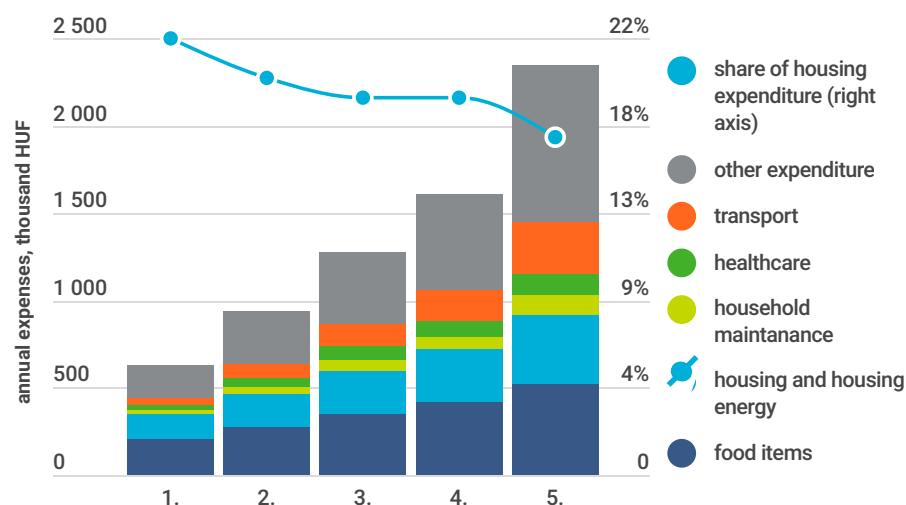


Figure 3: Households' annual per capita expenditure and housing expenditure as a share of total expenditure by income quintiles (2020)

Data source: Own calculations based on the 2020 data of the Hungarian Statistical office ([HCSO](#))

that, despite the overall reduction in household expenditure as a result of the utility cost reduction introduced in **2013**, **nearly one in three households living below the poverty line were in arrears even when the cap was fully effective.**

According to the new rules on utility cost reduction applicable from 1 August 2022, the reduced household tariff only applies up to a certain consumption level, beyond which the 'household market fee' is charged. Based on data from recent years and Habitat's [calculations](#) based on the HCSO's Household Budget Survey data,¹ **nearly half of households are affected by falling out of the reduced price bracket.** Those who will be most affected by rise in energy prices will therefore be people living in **detached houses**, especially those who live in **old houses with poor energy efficiency.** In addition, **poorer households affected by the new market price do not have the additional resources to make up the difference.**

The exclusive use of solid fuel [has always been most prevalent among the poorest](#). They did not benefit from the utility cost reduction, as firewood was not eligible for subsidies. Moreover, these households are now particularly disadvantaged by the sudden surge in demand for firewood. This issue is covered in detail in a [separate chapter](#) of this Report.

It clearly shows that **in the absence of meaningful, targeted interventions, the number of households unable to afford their housing costs, and at risk of deterioration in their quality of life and loss of housing, is likely to continue to grow.**

¹ In Hungary, the Hungarian Central Statistical Office (HCSO) conducts the European Household Budget Survey (HBS).

5. Recommendations

In order to ensure that the burden of the crisis is not borne by households, there is a need for **state-subsidised development of affordable rental housing for a wide section of society**. This requires **the creation of new institutions to manage and develop housing options in the long term, as independently as possible from market fluctuations**: examples of these include housing associations, social rental agencies and housing cooperatives.

The affordability of housing could be significantly improved by introducing the relevant points of the [Housing Minimum](#) document, drawn up jointly by several housing organisations:

- The **state-owned and subsidised rental housing sector must be expanded and developed**, including housing managed by **social housing agencies** or **non-profit housing associations**. Local authorities must be supported and encouraged to introduce similar programmes, and the government is advised to launch a centrally managed programme. The **expanding affordable rental housing sector should be kept non-profit in the long run**, generally, community spending on housing can strengthen the non-profit rental housing sector in the long run.
- The regulatory framework on the criteria for providing municipal rental housing must ensure that **subsidised rental housing is available to those in need and that rents are commensurate with families' ability to pay**.
- A **favourable regulatory environment for the non-profit rental housing sector** is needed: tax, insurance and public financing rules must ensure favourable conditions for housing agencies, housing cooperatives, housing associations and other non-profit initiatives providing affordable housing.

- **In order to prevent indebtedness and evictions**, which are expected to affect an increasing number of households due to overdue public utility bills and non-performing loans, a **normative housing allowance** from the central governmental budget, as well as **debt management services** based on the local social care system should be introduced without delay.



Nóra Feldmár – Anna Zsófia Bajomi

Back to firewood?

Residential solid fuel heating in Hungary

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Solid fuels – primarily firewood and secondarily coal – remain one of the most important sources of energy in people's homes. Billions of people cook, heat their homes and water with the use of fire, mainly in the Global South and Central Eastern Europe. In Hungary, investment in infrastructure and housing since the 1960s has connected an increasing number of households to the gas network and district heating, but even today **approximately four million people still heat their homes partly or exclusively with solid fuels.**¹

Wood-burning is most common in low-income households living in poor housing conditions, but its many advantages make it a widespread heating method in all segments of society.

This was exemplified in the summer of 2022, when tens of thousands of families suddenly sought to secure enough firewood for the winter, in

response to the increase in residential gas prices,² resulting in a **surge in demand and price hikes** for firewood. **The most vulnerable** in this situation **are households already living in energy poverty that are exclusively using solid fuels, for whom affordable heating has become even more out of reach.** In addition, air pollution from solid fuel heating is expected to increase significantly, posing a serious health risk to society as a whole.

Despite this, the government provides little support towards alleviating the problem. The social firewood subsidy is the only public instrument specifically targeted at households using solid fuels, and the amount of support paid out to households and the scheme's unequal distribution system leave many concerns. Furthermore, the housing renovation programmes available in Hungary do not include energy efficiency requirements and low-income households cannot access them.



¹ At least 90 percent of them use firewood, the rest use various types of coal products.

² For more details on the modification of the utility cost reduction scheme, refer to section 2.3 of the housing policies and government expenditure chapter, as well as section 4 of the affordability chapter.

1. The role of firewood in the energy supply

In energy statistics, the type of solid fuels that are renewable and derived from plants are classified as **primary solid biomass**. In Hungary, the vast majority of solid fuel use comes from **firewood used by households**. The second most common use of biomass (firewood and other wood and agricultural by-products) for energy production is combustion in power plants. In Hungary, seven power plants generate electricity and twenty district heating systems are supplied entirely or partially by [solid biomass](#).

In Hungary, solid biomass only accounts for less than a tenth of final energy consumption, **but for seventy percent of renewable energy sources**; amounting to 86 petajoules in [2020](#). Therefore, it plays a significant role in meeting European Union climate targets, including the national target for the share of renewables. The share of energy sources deemed renewable, however, depends largely on the calculation methodology used by Member States. In 2016 Hungary, [similarly to some other Member States](#), replaced the official data on the trade of firewood with a [methodology](#) based on the household consumption data from the annual Hungarian Central Statistical Office (HCSO) survey. The calculation was applied retroactively to 2005, dramatically increasing the share of biomass in the statistics and thus meeting the 2020 renewable climate target in one stroke (see Figure 1).

Therefore, **this inefficient and highly polluting heating method used by low-income households, mainly in rural areas** (see Figure 2), **was used to tick a box in terms of reaching climate targets, instead of implementing substantive measures to increase the share of renewables in the energy mix**. Furthermore, burning firewood increases the carbon dioxide concentration in the atmosphere, which is why international environmental organisations are [campaigning](#) to ensure that biomass burning should no longer be considered a carbon-neutral energy source – something that EU [decision-makers](#) have recently shown an openness to.

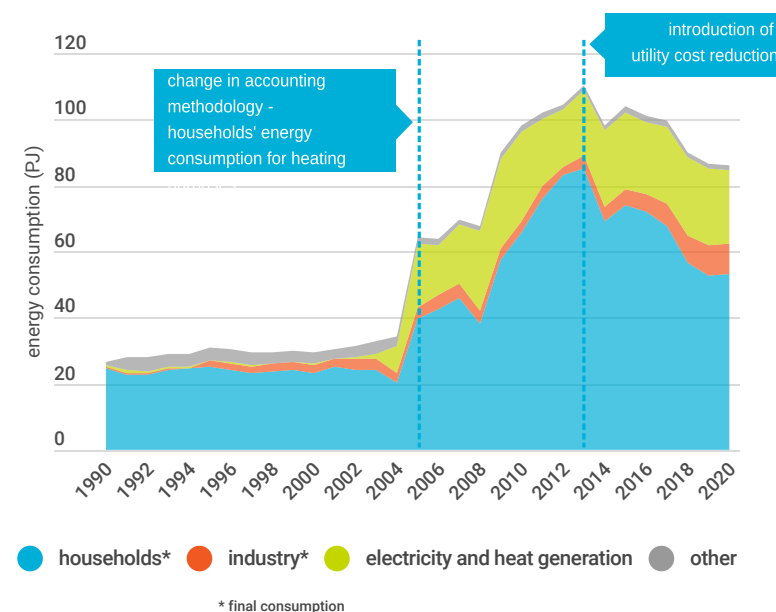


Figure 1: The use of biomass for energy in Hungary (in terajoules)

Data source: [Eurostat](#)

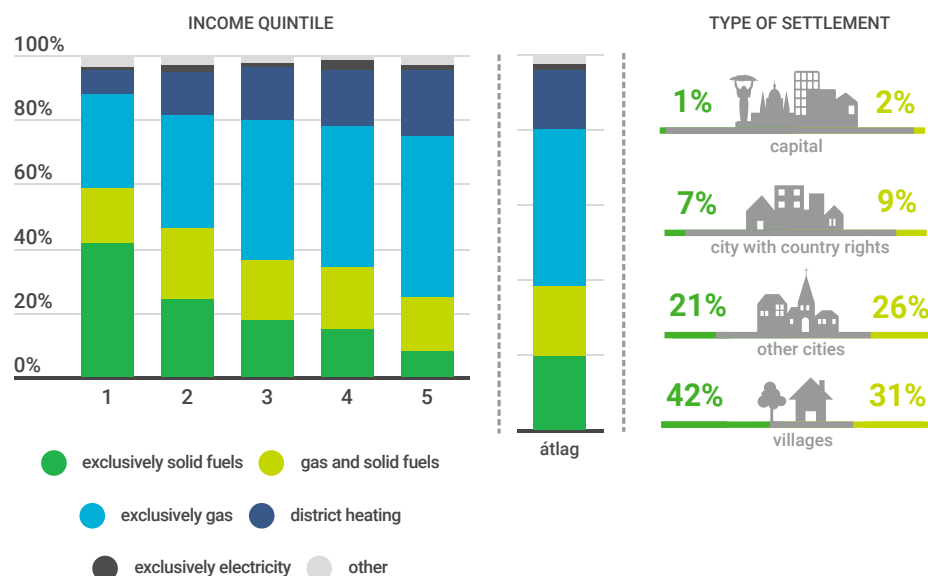


Figure 2: The share of households using solid fuels per income quintile and type of settlement

Data source: Hungarian Central Statistical Office (HCSO)

About a fifth of Hungarian households are not connected the gas network or district heating, thus most of them have no other option than to use firewood. As long as alternative environmentally friendly technologies – that include solar-powered heat-pump systems as well as modern biomass-based heating – and renovation programmes resulting in gains in energy efficiency are not available to all strata of society, conventional solid fuel heating will remain.

2. Residential natural gas and firewood prices

After food items, housing costs account for the largest share of household [expenditure](#), of which on average 65% is spent on energy used in one's home. Accordingly, household energy prices have become a focus of public policies and public debate.

After the change of regime in 1989-90, energy prices rose at a greater pace than inflation, and after 2006, a surge in gas prices exacerbated this difference. As a result, many households switched from gas to using solid fuels to cover a part of or their entire energy need (see Figure 3). According to [Eurostat](#) data, **by 2013 residential gas and firewood-based energy consumption were at roughly the same level**. This trend came to an end with the introduction of the utility cost reduction scheme,³ which meant that residential gas consumption started to rise again but remained below pre-2006 levels. Thus, residential firewood use is still higher today than it was in the first half of the 2000s.

³ The utility cost reduction scheme which put a cap on the price of natural gas, district heating and electricity, has been a long-serving flagship policy of the Orbán government. For an assessment of the scheme, see Szép, T., Weiner, Cs. (2020.) [The Hungarian utility cost reduction programme](#).

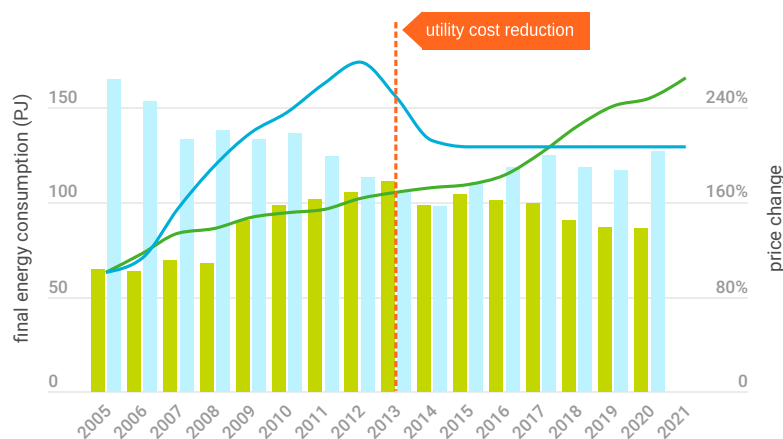


Figure 3: Residential solid fuel and natural gas consumption (left) and the change in prices of natural gas and chopped firewood (right)

Data source: [Eurostat](#), [HCSO](#)

3. Available subsidies for households

3.1. Social firewood subsidy

Currently, the only state support targeting households using solid fuels is the social firewood subsidy, launched in 2011, with an annual budget of HUF 5 billion since 2018. The allocated amount is significantly lower than the budget for housing renovation programmes and the savings of households from the utility cost reduction (see Figure 4).

Only municipalities with a population of less than 5,000 [are eligible to apply for this support scheme](#) (for one of three types of fuel: hardwood, softwood or brown coal), but the cost of delivery is not financed by the programme. The amount of support municipalities are eligible to apply for is determined on the basis of the number of people in the public works scheme, the number of people in receipt of social benefits or childcare benefits, and the number of people aged over 80. **The number of people using solid fuels, however, is not considered. Households' eligibility criteria are set by the municipality** – some municipalities give the same amount to all households (1-2 m³ of firewood per year on average) and others take various social aspects and/or the number of children into account.

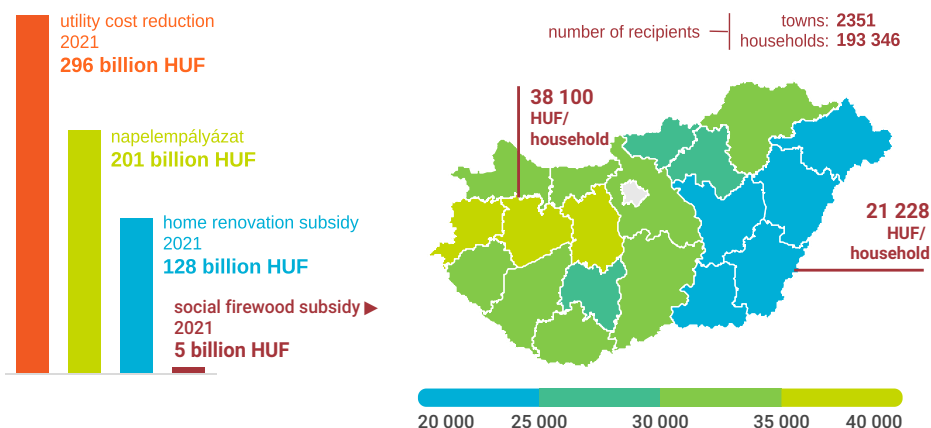


Figure 4: The budget, amount allocated per household and distribution of the social firewood subsidy

Data source: Habitat for Humanity data request from the Ministry of Interior

The asymmetry between the method of setting the level of support and the criteria for allocation may explain **why municipalities in the Western (and**

more affluent) part of Hungary are able to allocate significantly more support per household than those in the East (see Figure 4). According to data from the Ministry of Interior, in 2021 the largest difference observed was between Békés and Veszprém counties, with the latter being able to distribute almost twice as much support per household. At the settlement level, however, the range was between HUF 3,700 and HUF 101,600, resulting in a difference of almost 30 times in the amount received per household. In 2021, 193,000 households received the social firewood subsidy, while in the poorest income quintile alone, around 400,000 households used solid fuel heating.

3.2. Energy efficiency, heating modernisation

Hungary provides little funding and support for the renovation of residential buildings and energy efficiency programmes compared to other EU Member States, including those in Central Eastern Europe. Currently, the family housing benefit's variant (available in certain rural villages, *falusi CSOK*) and the home renovation subsidy (*otthonfelújítási támogatás*)⁴ can be used for these kinds of interventions. However, these programmes do not have energy efficiency requirements and are not available to households with no savings, low income, and no children.⁵

The call for applications for solar panels, financed by the Resilience and Recovery Fund (RRF), is expected to “contribute to a substantial reduction of the share of outdated residential heating systems”. The original target group of the scheme was “homeowners with poor creditworthiness, with incomes below the Hungarian average that are more exposed to the risk of energy poverty than the national average”. However, the eligibility criteria do not include the

household's use of solid fuels, and due to significant issues with the implementation of the scheme, many people – especially those who cannot afford the initially unanticipated own contribution – may not take up this opportunity in the end. An example of a good practice is the Polish coal heating modernisation fund with a budget of nearly 9,000 billion HUF (!), where low-income households can apply for around 6 million HUF (cca. 15 thousand EUR).

4. Recommendations

4.1. Reform of the social firewood subsidy

The budget for the programme should be increased substantially – to at least 20 billion from 5 billion HUF – and the subsidy should be extended to municipalities with more than 5,000 inhabitants. The eligibility criteria should be harmonised between central and local authorities, with greater account being taken of social targeting and the proportion of households using solid fuels in the settlement. Furthermore, it is also necessary to introduce rules on the quality of the fuel: the moisture content of the firewood distributed should be limited to a maximum of 25% and the possibility of applying for coal products should be abolished altogether. The subsidy framework should also cover the cost of transporting the firewood so that it is not borne by the municipality.

4.2. Targeted energy efficiency renovation schemes, heating modernisation programmes

The least energy efficient (worst performing) residential buildings need major upgrading (deep renovation⁶), in order for them to meet modern energy

⁴ The home renovation subsidy, a policy instrument introduced in 2021, available for households with children involves a non-repayable grant (of maximum 3 million HUF, cca. 7,500 EUR) that is financed ex-post and needs to be matched with an own-contribution.

⁵ The available housing renovation subsidies are out of reach for low-income household or those with no savings due to their respective financing constructions (they either require pre-financing on part of the household or a 50% own contribution), and they are only available to households with children.

⁶ Deep renovation minimises the building's energy demand by exploiting the full energy-saving potential of the building.

efficiency requirements and for Hungary to achieve the national climate targets. **This requires significant incentives in the form of government subsidies, non-repayable loans and other innovative support instruments** (e.g. energy communities, ESCO financing, one-stop shops). Such schemes should be available for **low-income households without savings**, and a **social stove exchange programme** should also be implemented to replace **obsolete and inefficient solid fuel heaters**. This is all the more necessary as the most polluting – and cheapest – solid fuel heating appliances have been gradually phased out from 2022 under the EU [Ecodesign Directive](#), while higher gas prices increase demand for stoves, driving up their price. Energy will only be affordable for low-income households in the long term if they receive support to renovate their homes and upgrade their appliances. The European Union also provides [funding](#) for this, for example through the (not yet published) calls for proposals within the Operational Programmes.

4.3. Strengthening the institution of socially targeted housing subsidies

The housing renovation subsidies currently available are primarily implemented by banks, tendering and construction companies that do not have the necessary expertise or capacity to incorporate social aspects. The above-mentioned programmes need to be aligned with the development of public institutions that can effectively support households in need. Furthermore, local social care systems must be strengthened, and the resources allocated to municipalities for this purpose must be increased. Also, it would be necessary to reintroduce the [normative housing allowance](#) to alleviate households' cost of living problems and to help them plan for future expenses.



