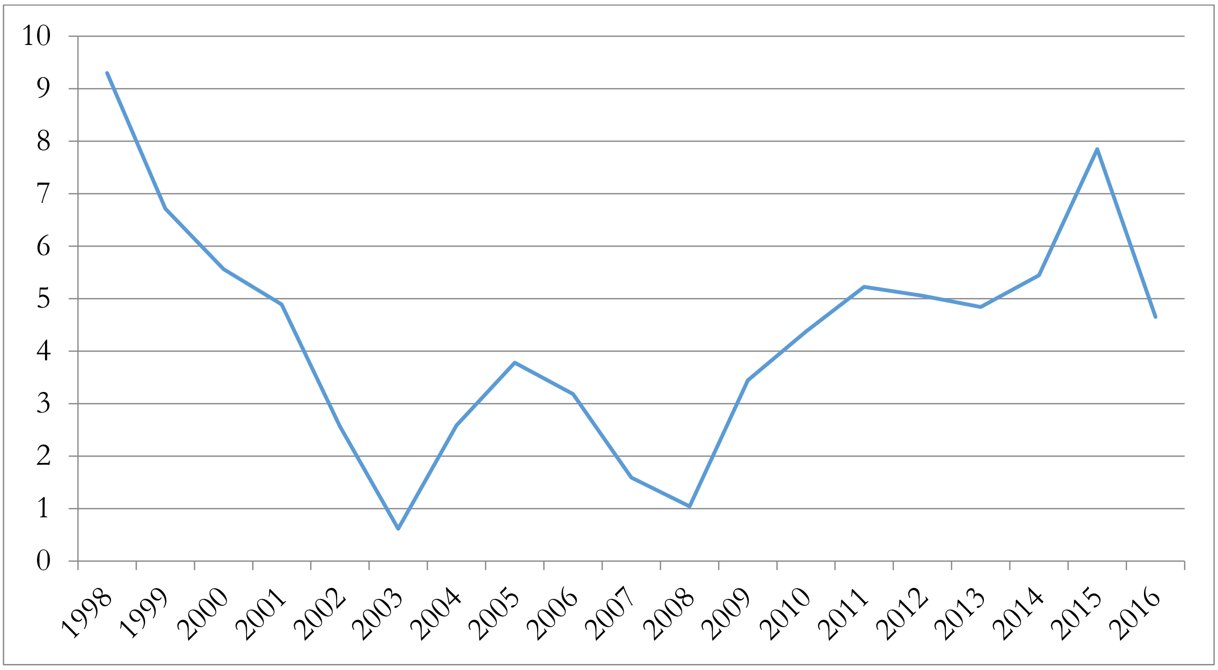
MINISTRY
FOR NATIONAL ECONOMY

Net household savings at a record high in Hungary

The net wealth of Hungarian households grew by more than HUF 18 000bn between June 2010 and the end of 2016, exceeding the country's annual GDP. The rising value of savings ensures macro-economic stability, creates sustainable economic growth and reduces the country's external vulnerability.

The propensity of households to save is a key factor, given the fact that households are a major determinant of a country's net savings, as other sectors tend to be net borrowers. The net financial savings ratio of Hungarian households had been around 2 percent of GDP in the years prior to the crisis. Over the past years, however, the propensity to save has improved, and the savings ratio has been some 5 percent of GDP. Improved propensity to save has facilitated the increase of domestic resources in helping to meet the loan demand of the economy's other stakeholders. This has substantially reduced the country's exposure to external risks.

Fig. 1: Net financing capacity of households in percentage of GDP



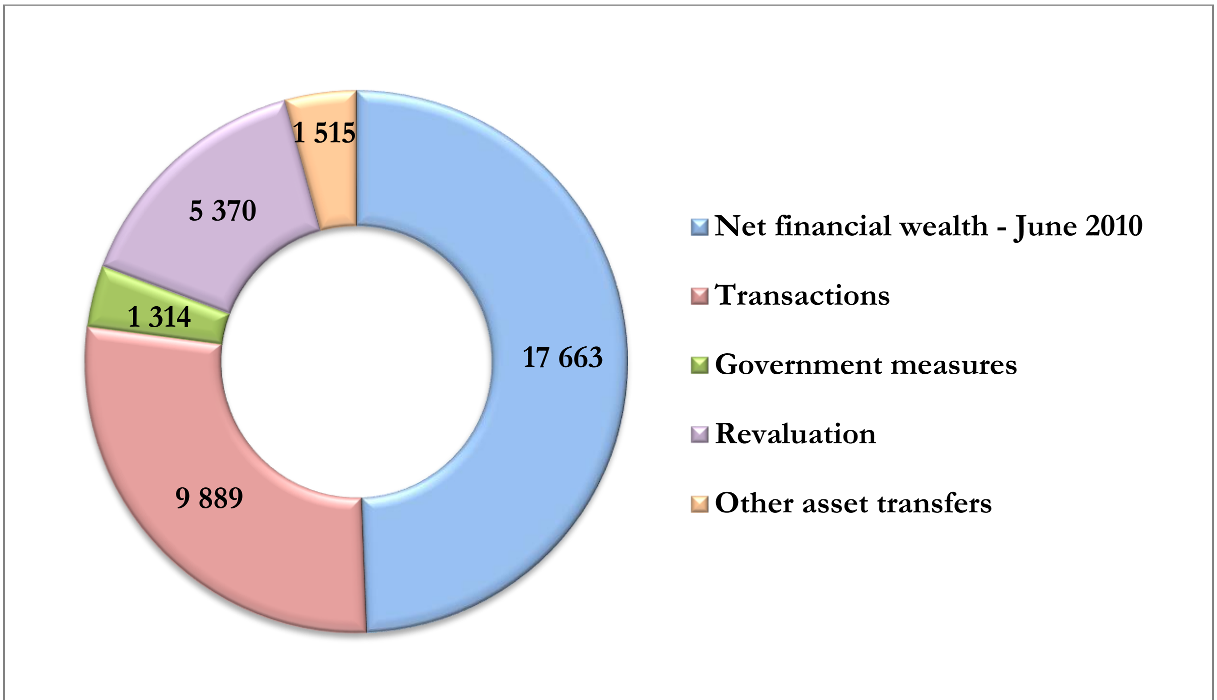
Source: Magyar Nemzeti Bank (MNB)

In the years 2010-2015, households had continuously repaid debts accumulated over previous years and they have become net repayers of loans, which means that the amount of repayments exceeded that of new loans each year. On the other hand, several economic policy measures have boosted the savings capacity of households in this period, such as the flat-rate personal income tax regime and family tax allowances. In the observed period, employment indicators have improved and wages in real terms have increased. For the first time after the year 2009, households' debt ratio rose slightly once again last year. Higher loan demand was generated by the revival on the housing market and in consumption, in addition to loans for self-employed persons taken out for agricultural land purchases and received through the Funding for Growth Scheme.

A recent study by the National Bank of Hungary (Anna Boldizsár –Zsuzsa Kékesi: We have never had so high savings ratio) predicts that lending growth is set to cause saving propensity to decline slightly in coming years. However, despite the minor downturn Hungarian households are seen to remain net repayers and thus other economic stakeholders can continue to rely on funding generated by households' domestic savings. These savings constitute a stable background for corporate investment, making growth sustainable and reducing the country's exposure to external risks.

The net financial wealth of Hungarian households has increased by more than HUF 18 000bn between June 2010 and the end of last year, hitting 102 percent of GDP, which ratio is much higher than the regional average. Gross financial wealth amounted to 126 percent of GDP, while debt equalled 24 percent of GDP.

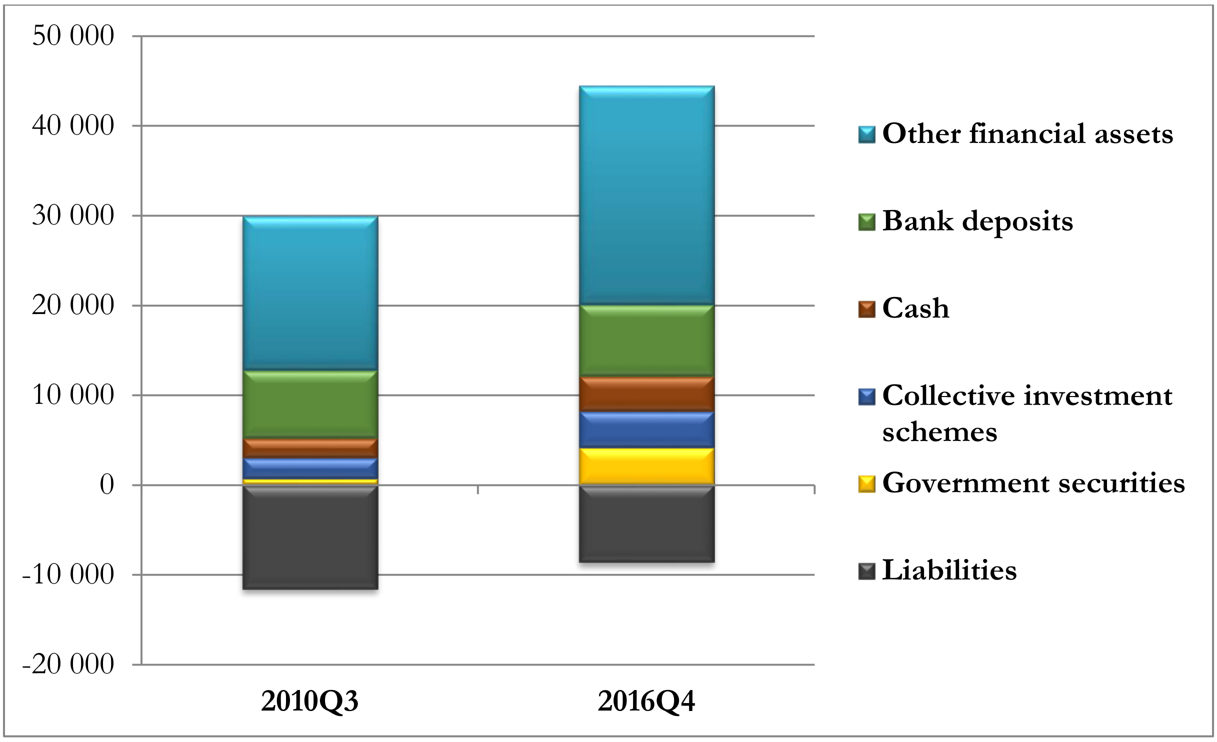
Fig. 2: Net financial wealth of households in December, 2016, by assets (35 752bn HUF)



Source: Magyar Nemzeti Bank (MNB)

The growth of net financial wealth has been the result of the high propensity to save and the declining stock of loans. Taking a closer look at the increase of HUF 18 000bn reveals that out of that amount HUF 9889bn stemmed from transactions by households, and therefore this figure can be regarded as the amount of savings generated by households themselves. Another HUF 1314bn originated from Government measures aimed at household forex loans (i.e.: fixed-rate forex loan repayment scheme and the forint conversion of forex loans). HUF 5370bn and HUF 1515bn were the result of asset revaluation and other asset transfers, respectively.

Fig. 3: Financial assets of households (bn HUF)



Source: Magyar Nemzeti Bank (MNB)

Recent years have brought changes in the composition of assets held by households as well. While the stock of government securities has increased almost six-fold since the middle of 2010, that of bank deposits has remained practically unchanged. It has been a major objective of Hungary's public finances policy to finance expenses increasingly from domestic resources and by the domestic currency, thus lowering the country's external exposure. Besides government bonds, treasury bills are another popular investment form among households. This trend is due mainly to low interest rates in recent years, but also to high risk aversion. Investment in individual companies has given way to collective investment schemes and government securities have replaced bank securities, corporate bonds and bank deposits.