

Hungary's Consumer Lending Environment To Dictate The Pace Of Recovery Of The Car Market

Contributed by Euromonitor International
Tuesday, 10 April 2012

By historical standards and even compared to most of its neighbours, demand for new cars in Hungary has been in the doldrums since 2009.

Sales have remained far below what they should be when considering the number of households that have enough disposable income to be in the market for a new car.

Click to tweet! Even movements in consumer confidence levels have had no impact on new car sales since the financial crisis began.

Fundamentally, sales have remained slow because of the tighter consumer lending environment and a change in consumer attitude towards debt. The new vehicle registration tax structure intended to stimulate demand will therefore undoubtedly have a limited impact in 2012, particularly in light of the 2012 hike in the top rate of VAT to 27%. That said, however, new car sales will eventually begin to climb in the coming years as long as the capacity of Hungarian consumers to take on debt improves.

Passenger Car Registrations and the Number of Households with Selected Disposable Income Levels in Hungary, 2001-2011

In 2008, passenger car demand essentially followed the development of the number of households with annual disposable incomes of US\$15,000 and US\$25,000. However, new car registrations slumped by 61% to just 60,000 units in 2009 and fell below 50,000 units in 2010 and 2011. This means that new car sales in 2010 and 2011 equated to a mere 2% of Hungarian households with an annual disposable income of over US\$15,000, whereas the equation was over 6% prior to 2009.

This phenomenon is naturally not uncommon in car markets since 2008 due to the economic downturn, but even movements in consumer confidence have had no impact on monthly sales volumes since 2009.

Monthly Passenger Car Registrations and Consumer Confidence Index in Hungary, January 2003 to February 2012

New car sales hurt by tighter consumer lending market

Something else, therefore, is continuing to restrain new car sales in Hungary – the consumer lending environment. Click to tweet! The growth of consumer lending, particularly consumer credit, slowed considerably during the economic crisis in Hungary.

One year after the start of the global economic crisis, in August 2009, several regulations were introduced in the Hungarian financial sector with the aim of creating more responsible lending and better informing consumers of the implications of taking out loans. The risks of a foreign currency loan had to be explained to potential debtors and their debt-taking capacity and level of risk awareness had to be assessed more thoroughly.

In addition, the instalment/monthly repayment salary ratio became more limited, loan-to-value rates were reduced and the one-sided modification of lending conditions by lenders was banned. Essentially, the government authorities made very strong efforts to protect consumers from the painful consequences of the bad decisions made as a result of their limited financial knowledge.

The approach of both lenders and consumers to loans therefore changed considerably. Consumers became thriftier and started to give more careful consideration to acquiring debt, especially due to increases in the rate of unemployment and company bankruptcies. Banks also became much more cautious in selecting potential customers, preferring to lend to existing customers whose risk was easier to assess and only using loan products as a tool to attract affluent new customers.

Between March 2010 and March 2011, banks provided very few new consumer loans and the outstanding balance of consumer credit increased only due to the depreciation of the local currency. Moreover, over the first half of 2011, banks started once again to offer various new consumer credit products but consumers chose not to react.

Consumer demand for new cars expected to rise

There is expected to be an increase in the capacity and desire of consumers to take out loans but lenders do not plan to lower the cost of lending, such as interest rates, considerably. Nevertheless, while the majority of banks have been quite strict in their risk assessment, and were even before the crisis, they are not expected to restrict their loan conditions further but rather be more creative in setting their own lending rules.

The new vehicle registration tax structure is also a positive for the car market but with the top rate of VAT increased from 25% to 27% at the onset of 2012 (the highest in the European Union) and a much more cautious approach to debt among Hungarian consumers, the new car market will struggle in 2012, albeit benefiting in the early months from a spike in registrations as consumers beat the VAT hike.

Nevertheless, Hungarian consumers are expected to increase their spending and as they begin to feel more financially secure and witness improvements in the economic environment, their capacity to take on debt will increase and so too will new car sales, although it will undoubtedly take years to recover to pre-crisis levels.

Passenger Car Registrations and Autos Lending in Hungary, 2001-2016

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