Hungary: Political opposition concentrated in the towns

Hungary's opposition took Budapest and other major cities in the country's local elections. However, prime minister Viktor Orban's dominant Fidesz party remains strong in more rural areas and these results won't be a game-changer as far as economic policies are concerned

Newly elected Mayor of Budapest, Gergely Karacsony (right)

It is extremely difficult to draw a single conclusion and announce a winner after Hungary's municipal elections over the weekend as both political sides have something to cheer about.

Firstly, the united opposition with Gergely Karácsony as the candidate for mayor was able to win Budapest, but it goes further than that. The opposition managed to win 14 out of 23 capital districts, it has a majority in the Budapest assembly, and also won big in ten big cities. Fidesz-KDNP was able to retain the vast majority of the countryside (meaning it wins the mayoral positions and a majority in the local assemblies). However, given that the governing party has been able to win every election since 2006 convincingly, any celebrations will no doubt be muted.

The focus now turns to the economic consequences, which – in our view – could be few and far between. We do not expect the governing parties to change economic policy. The voting base remains stable for Fidesz-KDNP in the countryside and the next election is only in 2022. Moreover, the results of the local election might not be so linked to economic performance or competitiveness, and it would be hard to imagine a significant reshuffle in the government's main goals (maintaining a 2ppt growth difference to the eurozone and increasing the country's competitiveness).

No one is suggesting that political stability is at stake

If the next quarters bring some fiscal spending by the government, it will be an economic reaction to the global downturn threatening the domestic macroeconomic environment rather than a politically driven decision to regain some votes in the cities. Fidesz-KDNP might be advised to act now as a gracious "loser" (and it is, according to what we're seeing since the results were revealed), and not start a political fight within the big cities, and especially not in Budapest. The capital is the main driver of the economy providing 37% of GDP, so regional political turmoil could drag down not just local economic activity, but it could have an impact nationally too.

So far, we haven't seen any harsh market reaction as no one is suggesting that political stability is at stake. In any case, we see any potentially heated political fights, notably in Budapest, as a tail-risk as both sides would have a lot to lose in such a scuffle.

We see no meaningful change in the structure of the economy or economic policy as a result of these elections. The currency and bond markets won't be affected as a result.

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