

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 Orbán'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 Karácsony (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.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial

Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.