

General Political Environment: Hungary is a stable, multi-party democracy; radical policy change is not expected. Emerging from communism, Hungary embraced gradual reform during the 1980s and was able to pursue democracy and market liberalisation in the early 1990s. On the left, the Hungarian Socialist Party rapidly adopted the free-market system and as a result, has largely deprived the right-wing parties of a platform.

Hungary acceded to the European Union (EU) on 1 May 2004. Over the last few years, the focus of the Hungarian government has been on reforms and policy changes related to accession. Hungary's commitment to further integration into EU structures is certain and cuts across the major parties. Euro adoption is currently planned for 2014, however this is still not guaranteed given some of the challenges Hungary faces with its budget deficit. Economic management has become the government's key focus in the wake of the 2006 election.

The Socialist-led government of PM Ferenc Gyurcsány was returned to power in the 2006 parliamentary election along with its coalition partner, the centre-right Alliance of Free Democrats (SZDSZ). The Socialists re-election represented the first time since the collapse of communism that a ruling party was returned to power in Hungary. However, Gyurcsány's success proved to be short-lived following his admission that the public was deliberately misled about the state of the Hungarian economy prior to the election. This admission led to riots in Budapest demanding the PM's resignation and provoked the ire of the conservative-nationalist opposition *Fidesz* party.

In April 2008 the weakness of the ruling coalition was exposed when the SZDSZ defected from government, reducing the MSZP to minority status. This followed a negative vote in the March 2008 referendum on the government's deficit-cutting, social welfare and healthcare reform package, which was part of the government's ongoing process of EU convergence. The negative vote resulted in the dismissal of the SZDSZ's health minister and the SZDSZ's defection.

The impact of the global financial situation on Hungary has been significant with the World Bank and IMF coming to the country's aid in November 2008 with a \$25.1 billion loan; the largest offered to an emerging market since the beginning of the crisis last autumn. The complex economic and political situation led to the March resignation of PM Gyurcsány and the defeat of his government in April 2009. The non-partisan Gordon Bajnai was named PM by the National Assembly on 15 April. He only agreed to assume the premiership if he was given *carte blanche* to legislate deep spending cuts. Bajnai will continue to face opposition from *Fidesz* and their KDNP allies. In June 2009 EU elections *Fidesz* out-performed the MSZP winning 56.4% of the popular vote compared to 17.4%.

Investment Environment: Successive Hungarian governments have demonstrated a serious commitment to creating favourable conditions for foreign investors. The government is committed to a free-market economy and the current privatisation programme will be pursued. Although some groups are more nationalist and suspicious of foreign investment, it is unlikely that the overall favourable trend will be reversed. The opposition *Fidesz* party has been lukewarm to foreign investment in the past and on occasion has threatened re-nationalisation.

On the whole, the legal system provides effective protection for foreign investors and regulatory bodies are functioning well and are effective. There is legal protection against expropriation and nationalization. The legal system has been substantially reformed and legislation is now fully harmonized with EU norms. International arbitration is permitted and recognized. Foreign investors may freely repatriate all profits, dividends, fees and income from the sale of an investment. Full foreign ownership is permitted in almost all but a very few sectors designated as strategic. The Foreign Investment Act gives foreign investors equal treatment.

The still large and unwieldy bureaucracy has been targeted by the government as part of a programme of public administration reform that, if implemented, will result in fewer ministries and agencies and a rationalization of local government. There are some instances of low-level corruption although this is not a serious problem.

Political Violence: Political violence in Hungary is not a significant issue.

Political

Political Structure

Parliamentary Republic

President

Laszlo Solyom

Prime Minister

Gordon Bajnai
(non-partisan)

Legislative Bodies

National Assembly
(*Országgyűlés*)
(unicameral with 386 seats)

Major Parties

- Hungarian Socialist Party (MSZP) – 190 seats
- *Fidesz*-Hungarian Civic Party (F-MPP) – 141 seats
- Christian Democrats (KDNP) – 23 seats
- Alliance of Free Democrats (SZDSZ) – 20 seats

Last Elections

- Presidential: 2005
- Legislative: April 2006

Next Elections

- Presidential: 2010
- Legislative: May 2010

Press Freedom Survey:

- 2008 Score: 21 Free (0: Free; 100: Not Free)

freedomhouse.org

Control of Corruption Index:

- 2008 Score: +0.55 (-2.5: Worst; +2.5: Best)

worldbank.org

August 2009
Andrew Bennett
abennett@edc.ca

Political Outlook

Expect Hungarian politics to continue to revolve around improving the economy, social welfare reform, and dealing with the economic downturn. The somewhat unexpected resignation of Ferenc Gyurcsány as PM in March 2009 and appointment of Gordon Bajnai as a caretaker PM is unlikely to soften the attacks of *Fidesz* and other opposition parties. *Fidesz* remains the most popular party in Hungary by a wide margin and will likely win the most seats in 2010. Bajnai will face considerable pressure from pensioners and low-income earners who are facing significant economic hardship as a result of the economic crisis. However, EDC expects that he will stay the course and work closely with the IMF to address Hungary's current challenges.