

OPPOSITION COALITION WINS SURPRISE VICTORY IN CZECH ELECTIONS

Implications of the Czech parliamentary elections for international investors

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Losing the election by a razor-thin margin in terms of popular support, the ruling ANO party of Prime Minister Andrej Babiš came in second during this weekend's parliamentary elections in the Czech Republic. The strong electoral performance of its main rival, the centre-right SPOLU coalition, as well as the poor results of smaller parties favouring Babiš, have resulted in four large formations entering the Chamber of Deputies, the lower house of the country's legislature. While SPOLU is the clear favourite to be the senior member of a future coalition, the future coalition talks will also depend on the attempts of PM Babiš to stay in power, while the ill-health of Czech President Miloš Zeman looks set to further prolong the procedure.

As the new parliamentary groupings prepare for the formation of the next government, Kesarev provides an analysis of the parliamentary vote, as well as its potential implications.

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RULING ANO PARTY LOSES POPULAR VOTE

On 8-9 October, the Czech Republic held much-anticipated parliamentary elections under a regional proportional system to elect the 200 MPs of the Czech Chamber of Deputies, the lower house of the country's bicameral legislature. With 100% of the votes counted, the centre-right SPOLU, a coalition of three parties (the liberal-conservative Civic Democratic Party (ODS), the Christian Democratic KDU-ČSL and the fellow liberal conservative TOP09) defeated ANO, the right-wing populist ruling party of Prime Minister Andrej Babiš.

While most pre-election polls favoured ANO as the frontrunner, the SPOLU coalition triumphed with 27.8% of the popular vote, only 0.7% more votes than ANO received. Despite coming in second during the parliamentary vote, ANO managed to keep most of its voters as the party lost only around 2.5% in comparison with its election results four years ago. Interestingly, due to the Czech electoral system in which the vote is proportional but MPs are elected through 14 regional constituencies, ANO, despite not winning the popular vote, will have 72 MPs in the lower house, while SPOLU secured 71 seats. The victory of SPOLU over ANO is also seen as a vote in favour of the European Union and against the country's populist PM who has frequently clashed with the EU over cultural issues and EU funds.

As well as ANO and SPOLU, two other formations passed the 5% threshold to enter parliament. Piráti+STAN, the electoral alliance of the progressive liberal Czech Pirate Party and the liberal Mayors and Independents movement, received 15.6%, while the Freedom and Direct Democracy party (SPD), a right-wing populist and anti-EU formation, secured 9.5%. The Piráti+STAN alliance achieved results similar to their performance during the 2017 parliamentary elections when they ran as two separate parties and secured 16%. However, the Czech Pirate Party picked up only four parliamentary seats this time, down from 22 in 2017, while STAN increased its number of MPs to 33. The electoral alliance's performance is largely seen as disappointing, given that polls from earlier this year saw it competing with ANO for pole position. The right-wing SPD received 1% less compared with four years ago and will have 20 MPs in the Czech lower house.

The electoral performance of SPOLU, as well as the strong parliamentary position achieved by the centre-right coalition, comes down to a number of factors, including historic changes in the country's multi-party politics.

- › Prior to the election, a number of different corruption scandals involving alleged misconduct from PM Babiš shifted the public mood against ANO. In April, the results of a long-running audit from the European Commission found that the Czech PM has continued to exercise influence over Agrofert, an agricultural business conglomerate, and controlled the company's disbursement of EU funds at the same time as holding the position of Prime Minister, signalling a potential conflict of interest. Back in 2019, when the first EU findings were revealed, an estimated 200,000 protested against Babiš and his government. Other allegations of corruption have also loomed large over the PM, including the findings of the so-called Pandora Papers leak which showed that Babiš purchased a property in France using secret loans via offshore companies before entering politics.
- › The parliamentary vote also means a drastic reformatting of the Chamber of Deputies. The Social Democratic Party (ČSSD) and the Communist Party of Bohemia and Moravia (KSČM), which received 7.8% and 7.3% of the popular vote four years ago, have failed to pass the 5% threshold and so fall out of parliament, leaving the Czech lower house without a traditional left-wing party for the first time in decades. The poor performance of the ČSSD and the KSČM came as a massive blow to the aspirations of ANO, since both parties were previously coalition partners in the Babiš Government. Other smaller parties, such as the newly found Prísaha, a populist/anti-corruption movement, also failed to achieve 5%. The failure of these parties subsequently played into the electoral hopes of the SPOLU coalition which aims to prevent ANO from staying in power.

ELECTION RESULTS

Political Party	Popular Vote (%)	Projected Number of MPs
SPOLU (coalition of the ODS, KDU-CSL and TOP09 parties, centre-right)	27.8	71
ANO (populist, conservative-liberal)	27.1	72
Piráti+STAN (alliance between the Czech Pirate Party and the Mayors and Independents, progressive-liberal)	15.6	37
Freedom and Direct Democracy (SPD, right-wing populist, hardline Eurosceptic)	9.5	20
Social Democratic Party (ČSSD, centre-left)	4.6	0
Prisaha (anti-corruption, populist)	4	0
Communist Party of Bohemia and Moravia (KSČM, radical left-wing)	3.6	0
Total		200

(Source: Central Election Commission of the Czech Republic)

IMPLICATIONS FOR INTERNATIONAL INVESTORS

Taking the composition of seats in the Czech lower house into account, the next weeks will be dominated by coalition talks between different parties to create a functioning parliamentary majority. While all the four parliamentary groupings have indicated their position on the future government, the road to forming a new government could take months depending on a number of factors. Below we outline a number of scenarios concerning the upcoming coalition talks and the composition of the next government.

- › **A coalition between SPOLU and Piráti+STAN.** Our baseline, most likely scenario assumes a new government involving the centre-right and liberal alliances, which together hold a comfortable majority in the lower house with 108 MPs – with SPOLU leader Petr Fiala as the future Prime Minister. Fiala, a political scientist and university professor who briefly served as Minister for Education, Sports and Youth between 2012 and 2013, has already pledged to work with Piráti+STAN to secure a working majority. Despite running in electoral alliances, this would mean a parliamentary majority delivered by five parties, in which SPOLU would hold 71 seats and Piráti+STAN 37. The two alliances are united in their opposition against Babiš and ANO that could support coalition talks. However, in case of a new government led by the SPOLU leader, differences could easily emerge, given their ideological differences. Furthermore, the high number of parties making up such a future coalition could also lead to political instability in the long run.
- › **Babiš staying on as PM in a new coalition.** Despite losing the popular vote, Babiš and his party are expected to try and remain in government. The Czech PM has already indicated that he would seek a coalition between ANO and the strongest member of the SPOLU coalition, the centre-right

ODS. This scenario remains unlikely, due to the centre-right coalition's stated unwillingness to work alongside ANO. However, despite coming second, Babiš could still become the first to be asked to form a government since this task is traditionally given by the President to the leader of the party – and not the coalition – securing the most votes. Most recently, Speaker of the Chamber of Deputies from ANO Radek Vondráček promised that his party will make only one attempt to form a government, claiming that ANO will not prolong the negotiations if they prove unsuccessful.

- › **The greatest variable to the future composition of the coalition is Czech President Miloš Zeman.** Prior to the elections, President Zeman (77) declared that he would nominate the leader of the largest single party for the position of Prime Minister. This remark has led many to speculate that the President would attempt to keep Babiš in power by breaking up the SPOLU coalition through demands concerning the future composition of the government. A day after the parliamentary vote, the President was hospitalized and is currently in ICU but in a stable condition. SPOLU leader Fiala has indicated that he will wait to approach the Czech President regarding coalition talks until his health condition improves: the President's return to hospital could therefore significantly prolong the coalition talks, as could any potential intention from Zeman and Babiš to keep the Czech PM in power.
- › **Assuming that any coalition talks led by ANO are unsuccessful,** this would open the way for a government supported by the parliamentary majority of SPOLU and Piráti+STAN. While most policies would be dependent on a potential coalition agreement, such a coalition would almost certainly improve the country's relations with the EU, given the Agrofert issue. Likely future policy directions would also be influenced by a centre-right agenda as Piráti became the only progressive grouping in the lower house, while traditional left-wing parties are now out of parliament. At the same time, some members of the incoming five-party coalition, such as ODS and STAN, remain open to economically less liberal directions. Such a government would also be critical towards cooperation with Russia and China. (SPOLU took the lead in rejecting any Russian or Chinese involvement in the country's nuclear energy sector due to national security concerns.) Under this scenario, Babiš, who previously claimed that he would not remain an MP if he lost the election, could choose to run for President in 2023 - or sooner if President Zeman's health condition deteriorates further. Due to the personal importance of Babiš in his party, this could also mean a downward spiral in terms of popular support for the ANO party should it end up in parliamentary opposition.

CONCLUSION

The coming days will prove crucial for the make-up and political direction of the next coalition, with the health of President Zeman being the biggest variable. Should the President choose to nominate Babiš for PM, the next period could see lengthy and protracted coalition talks, with a likely failed attempt at the end from the ANO leader. However, taking the parliamentary composition into account, Zeman could also decide in favour of a SPOLU- Piráti+STAN coalition of five parties, almost certainly resulting in the nomination of SPOLU leader Petr Fiala for Prime Minister. In this case, investors are advised to pay close attention to government stability moving forward, since previous governing coalitions of the Czech Republic were composed of a smaller number of parties. The ideological differences between SPOLU and Piráti+STAN could result in coalition disputes in the long run, although this could be more rhetoric than reality: the poor electoral performance by the Pirates Party means it has been left with far less influence than anticipated.

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