

Czech elections: An anti-establishment surprise

Despite some big election shocks, we're not expecting major changes in economic direction



Source: Shutterstock

Babis set to be Prime Minister

Elections in the Czech Republic threw up some major surprises. The leading ANO gained strong support as expected, but CSSD, the 2013 election winner, was a big loser. Surprising too was the support for the new centre-right oriented Pirati, and anti-immigrant party SPD. The direction of the country will be determined by the ANO movement, so we do not expect significant change following the election.

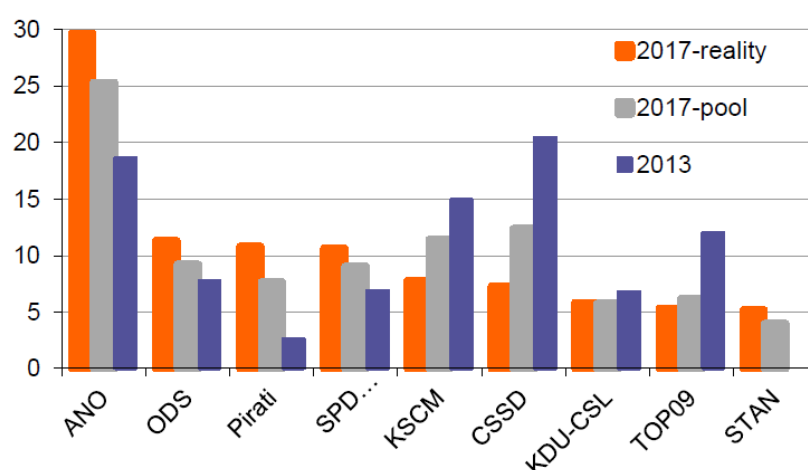
Despite a pre-election campaign that focused on the financial controversies of ANO leader Andrej Babis, which suggested conflicts of interest and manipulation of the media, his party was the clear leader with 29.6% of the vote. Second came ODS (Civic Democratic Party) with 11.3%, though a significantly better result for the right-oriented party than in 2013, this was the only improvement for traditional parties compared with previous elections. Third place went to protest-liberal party Pirati (Czech Pirate Party) with a more than expected 10.8%, followed by anti-immigrant party SPD

(Freedom and Direct Democracy).

Traditional parties weakened significantly while anti-establishment and protest parties were the clear surprise

Surprisingly, the left-leaning CSSD, winner of the 2013 elections and current coalition party, came in with 7.3% after a 20% share in 2013. This fall was not predicted; polls placed CSSD safely above 10% (Figure 1). KSCM (Communist Party) also experienced its worst result of recent decades with 7.8%. The ANO movement was perceived by voters as an anti-establishment party, despite being in power in the last government for four years.

Czech election results



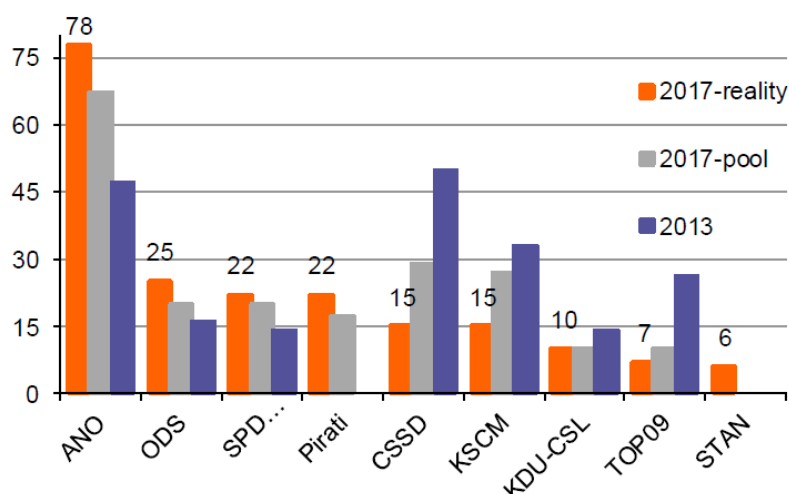
Source: CZSO

Coalition battles

Though ANO gained 78 seats (after 47 in 2013), the creation of a stable coalition (100+) might not be easy (Figure 2). Many parties have promised not to cooperate with ANO due to possible conflicts of interest related to Andrej Babis. A two-party coalition would be possible only with ODS (103 seats), but ODS says it won't cooperate with ANO. However, we think this would be the best option for growth and reform.

Another option would be the continuation of the current coalition (ANO+CSSD+KDU-CSL) with 103 seats, but current coalition parties have also promised not to cooperate with Babis. Still, weak results for CSSD and not particularly good numbers for KDU-CSL are likely to lead to some changes in the parties' leadership and a subsequent change in attitude. This could be a necessary requirement otherwise ANO might end up in cooperation with the anti-immigrant and anti-EU SPD with the silent support of KSCM – an option that is mostly considered as the worst outcome by many political analysts.

Number of seats



Source: CZSO

ANO will be setting the agenda

The possibility that ANO could end up in the opposition not being able to set a coalition is unlikely. Due to the strong result of ANO and the relatively weak showing of traditional parties, an anti-ANO coalition without SPD and KSCM support is not feasible (85 seats). We believe that pre-election rhetoric will be partially forgotten and ANO will manage to create a coalition without the support of SPD and KSCM. Either it will be a similar centre-left oriented government, as we had in the current election period, or a centre-right coalition with ODS and/or Pirati.

As such, the economic direction is unlikely to change as ANO will be setting the agenda. With multi-party promises regarding lowering the tax burden, we might see some tax cuts further supporting household consumption. The introduction of sector tax is off the table, euro adoption will continue not to be a priority unless a threat of a two-tier EU becomes a more serious, pressing concern.