

Short Note

Czech Republic - politics

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Czech Republic: difficulties of forming a coalition government

The center-left Social Democrats (CSSD) won the Czech parliamentary elections on Saturday, but fell short of winning a majority. With only 20% of votes and 50 out of 200 seats in Parliament the CSSD will have difficulties forming a coalition government. The eventual and before the election often mentioned cooperation with the Communists (KSCM) would secure only 88 seats in Parliament and therefore such a cooperation seems to be quite unlikely. The market will most likely perceive the inability of a CSSD/KSCM coalition as positive.

With about 19% of votes and 47 seats the new ANO party of Andrej Babis, a Slovak billionaire with a Czech passport, finished second. All together there will be seven parties in the Parliament.

Election results:

CSSD (Social Democrats): 20% - 50 seats

ANO: 19% - 47 seats

KSCM (Communists): 15% - 33 seats

Top 09: 12% - 26 seats

ODS: 8% - 16 seats

Usvit: 7% - 14 seats

KDU: 7% - 14 seats

Forming a government consisting of CSSD, ANO and some other party (for example Christian democrats who made a political comeback during the weekend) would make sense. However, predictability of the behaviour of ANO is very small as the party has no track record. Furthermore, it might be difficult to find program intersection within these parties. The country will now enter in what is likely to be a lengthy period of deal making as parties scramble to form a government. This translates into higher importance of president Milos Zeman. The election result means that the Social Democrats will probably not have the power to push through the suggested income tax hikes. The ANO is regarded to be a business-oriented party. There are big uncertainties surrounding near future politics in the Czech Republic. However, this is something the market should have already anticipating to a large extent, therefore the immediate market reaction will be limited in our view.

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