

◀ FIVE-PARTY COALITION TO FORM NEW CZECH GOVERNMENT

Implications of the prospective Petr Fiala Government for international investors

9th November 2021

Issues & Sectors	Parliamentary Elections, Government Relations
Stakeholders	Presidential Administration, President, Parliament, Chamber of Deputies

The Czech Republic is on course to be governed by a coalition of two electoral alliances: the SPOLU coalition of three centre-right parties and the Pirates and Mayors alliance, with SPOLU leader Petr Fiala, a political scientist and university professor, expected to become Prime Minister. However, the governing majority to be formed by the two electoral alliances, which include five parties altogether, could raise questions over the incoming government's political stability, just as it prepares to tackle urgent economic challenges, the fourth wave of the pandemic and improve the country's troubled relations with the EU.

The new configuration of the Chamber of Deputies, the lower house of the Czech parliament, was inaugurated this week and Czech President Miloš Zeman is expected to appoint the new cabinet in the near future, to a timetable yet to be fully determined. Below, Kesarev takes a deeper look at the aftermath of the recent parliamentary elections, the immediate prospects of the SPOLU / Pirates and Mayors alliance and potential implications of the new government for foreign investors.

This memo will cover:

Post-Election Landscape	2
Composition of the Chamber of Deputies	3
The New Government And Its Priorities	3
Conclusion	5

POST-ELECTION LANDSCAPE

On 8-9 October, the Czech Republic held much-anticipated parliamentary elections to elect the 200 members of the Chamber of Deputies, the lower house of the country's bicameral legislature. Beating the expectations of most pre-election forecasts, the centre-right SPOLU (Together) coalition, an electoral alliance between three conservative parties (the liberal-conservative Civic Democratic Party (ODS), the Christian Democratic KDU-ČSL and the fellow liberal conservative TOP09) came first in the polls, securing 27.8% of the popular vote. This result secured a razor-thin but still significant victory over the right-wing populist ANO party of incumbent Prime Minister Andrej Babiš. Despite having polled as the frontrunner in the election build-up, ANO received only 27.1% of the popular vote, falling to second place.

Aside from SPOLU and ANO, two other formations passed the 5% threshold to enter the lower house of the Czech parliament: Piráti+STAN, the electoral alliance of the liberal Independents and Mayors movement and the progressive liberal Czech Pirate Party, came in third, receiving 15.6% of the vote, while the Freedom and Direct Democracy Party (SPD), a right-wing populist and anti-EU formation, secured 9.5%. Well before the elections, SPOLU and Piráti+STAN expressed a strong intention to govern as a coalition should they win the parliamentary vote¹.

The October vote resulted in a number of significant implications in Czech domestic politics that will shape the country's public life in the upcoming period:

- › Given Babiš' political background, SPOLU's victory over ANO was widely seen as a vote against illiberalism and in favour of the European Union. The outgoing PM was running on a Eurosceptic platform and campaigning on a mostly ideological basis against left-wing and liberal social ideas. However, the election campaign was also shaped by corruption scandals involving Babiš that shifted the public mood against ANO.
- › Despite coming in second behind the SPOLU alliance, ANO managed to retain most of its support from the last parliamentary elections in 2017. Realizing his lack of viable coalition partners, however, Babiš conceded defeat and accepted the opposition status of his party. Interestingly, due to the Czech regional-based proportional voting system, ANO has the largest number of single party seats in the new Czech lower house, despite losing the popular vote.
- › While the Czech Pirate Party is on course to become part of the government together with its electoral ally, the Independents and Mayors, the party actually performed poorly in terms of the parliamentary vote, securing only four seats in the Czech lower house, down from the 22 MPs in 2017.
- › For the first time in decades, there are no traditional left-wing parties in the country's parliament. 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 respectively four years ago, failed to pass the 5% threshold and so fall out of parliament. 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/outer supporters in the Babiš Government.
- › Post-election uncertainty took hold as Czech President Miloš Zeman was hospitalized a day after the October vote. Before being taken ill, Zeman said he would task the head of the largest single party with forming a government, leading to speculation that he would somehow allow Babiš to remain in power. However, upon his recovery, the President confirmed that he would ask Petr Fiala, the leader of the SPOLU alliance, to start coalition talks since Babiš lacked the parliamentary support to remain as PM. On 9th November, Zeman officially instructed Fiala to negotiate the formation of the new cabinet.

¹ Please see [here](#) for our detailed overview of the election results, released last month.

COMPOSITION OF THE CHAMBER OF DEPUTIES

Political Party / Alliance	Popular Vote (%)	Number of MPs
G O V E R N M E N T		
SPOLU <i>Coalition of the ODS, KDU- ČSL and TOP09 parties, centre-right</i>	27.8	71
Civic Democratic Party <i>ODS, liberal conservative</i>		34
Christian and Democratic Union <i>KDU-ČSL, centre-right</i>		23
Tradition, Responsibility, Prosperity <i>TOP09, liberal conservative</i>		14
Piráti+STAN <i>Alliance between the Czech Pirate Party and the Mayors and Independents, progressive-liberal</i>	15.6	37
Independents and Mayors <i>STAN, localist, pro-European</i>		33
Czech Pirate Party <i>Piráti, progressive liberal</i>		4
O P P O S I T I O N		
ANO <i>Populist, conservative-liberal</i>	27.1	72
Freedom and Direct Democracy <i>SPD, right-wing populist, hard-line Eurosceptic</i>	9.5	20
Total		200

(Source: Central Election Commission of the Czech Republic)

THE NEW GOVERNMENT AND ITS PRIORITIES

Immediately after the election, SPOLU and Piráti+STAN, having already signalled their intention to work together, entered negotiations to discuss the working programme of a prospective government, paving the way for the first five-party coalition in the country's democratic history. On 8th November, the two electoral alliances signed a coalition deal that is on course to be agreed internally by all five parties.

The new Czech lower house sat for the first time since the elections on 8th November. Below we outline a number of implications for the country's new government.

- › **In line with public expectations, the new government will be headed by Petr Fiala**, the head of the SPOLU coalition and the leader of the Civic Democratic Party (ODS). Fiala is a political scientist and university professor who has held different academic positions at the Charles University in Prague and at Masaryk University in Brno. Entering politics in 2011, he briefly served as the chief advisor for science in the Government of Petr Nečas, as well as Minister for Education, Sports and Youth between 2012 and 2013 in the same cabinet. As the leader of ODS since 2014, Fiala is also known for forming the SPOLU alliance between the three centre-right parties.
- › **With five ruling parties, government stability will be a key factor to follow.** The future coalition is expected to include four conservative-liberal parties and one progressive formation. Consequently, potential coalition fractures could occur involving – or initiated by – the Czech Pirate Party, which stands apart ideologically from the other four formations. The past weeks have already seen heated discussions within the Piráti+STAN grouping as some in the Pirates have blamed the Independents and Mayors for its failure to secure more seats in the Czech lower house (STAN leader Vit Rakušan already signalled that Independents and Mayors would run on a separate list in the next elections). There are also policy differences within the SPOLU alliance: ODS, the party of Fiala, is seen as a soft Eurosceptic in comparison with the other two members of the centre-right alliance. However, even if the Pirates break ranks, the new coalition would have 104 MPs; enough to ensure a working parliamentary majority.
- › **According to the coalition deal, the Fiala Government is expected to consist of 18 ministries**, including three new ministries likely to be among the key stakeholders of his cabinet, as well as priority areas in terms of policy-making: legislation, research and innovation and European affairs. SPOLU is expected to control ten ministries, including finance, defence, labour and social affairs, transportation, health, justice, agriculture, environment, culture, as well as the new ministry for research and innovation. The remaining ministries, including those of the interior, trade and industry, education, foreign affairs, regional development and digitization, as well as the new portfolios of legislation and EU affairs, will be divided between the Pirates and Mayors alliance. The list of eventual nominees is yet to be discussed between the five prospective governing parties, appointed by President Zeman and confirmed by parliament in a vote of confidence.
- › **Digitization is likely to be a key priority for the incoming government**, as reflected not only by the creation of the position of a science and innovation minister, but also by the reformatting of the regional development ministry, which will now also focus on digitization. Among other initiatives, the coalition deal envisages the implementation of an eGovernment Cloud concept in the state and private sectors, the adoption of more flexible rules for purchasing cloud services in line with EU standards, strengthening cybersecurity capabilities and completing the implementation of the country's so-called Act on the Right to Digital Services, a gradual digitization plan aimed at improving public administration services by 2025.
- › **Among the immediate challenges is the fourth COVID-19 wave.** As in other countries Central & Eastern Europe, the Czech Republic has seen a renewed surge in coronavirus infections recently. In October, the outgoing government introduced wide-ranging restrictions, including requirements for vaccine certificates/negative test results to enter bars, restaurants and other venues, and the compulsory use of face coverings at workplaces. The new government is expected to explore ways of boosting the vaccination rate that had plateaued at around 58% of the population by early November.
- › **The new government is expected to strengthen the country's ties with the EU.** Both the SPOLU and Piráti+STAN alliances have criticized outgoing PM Babiš for his government's political struggles with the European Union. The creation of a dedicated EU affairs minister indicates a strong intention from the Fiala Cabinet to improve Czech-European ties, as well as preparations for the

upcoming Czech Presidency of the Council of the European Union, starting in July next year. However, despite a clear intention to improve relations with the EU, the incoming governing coalition – according to finance ministerial hopeful Zbyněk Stanjura – has no plans to introduce the Euro. While most prospective ruling parties are in favour of its adoption, fiscal constraints, including the 7.7% budget deficit for 2021, will force the government to prioritize fiscal stability. The coalition deal also includes a firm promise not to raise taxes and of cutting subsidies to large companies.

- › **Simultaneously, Fiala is likely to have cool relations with Russia and China.** Earlier this year, while in opposition, SPOLU came out against involving Russian companies in the country's nuclear energy sector as bilateral relations worsened after the so-called Vrbětice revelations, in which Czech authorities accused the Russian secret service of being responsible for the explosion of two Czech arms storage sites in 2014. Furthermore, the future governing coalition, which promised “a revision of relations with Russia and China”, is planning to adopt a law modelled after the so-called Magnitsky Act, an anti-corruption legislation originating from the U.S. and employed by several countries of the West to sanction entities and individuals involved in human rights violations and corruption. The incoming coalition also supports improving political and business ties with Taiwan. These moves are highly likely to place great strain on relations with Moscow and Beijing.

CONCLUSION

President Zeman, who is ideologically closer to the outgoing PM and first indicated he might task Babiš to form a cabinet, could still theoretically prolong the process of forming a government, given his ideological differences with the Czech Pirate Party. However, with the coalition deal already inked by SPOLU and Piráti+STAN and Zeman's official instructions for Fiala to form a cabinet, the SPOLU leader is on course to become the next Prime Minister of the Czech Republic in the near future.

Fiala's prospective cabinet is expected to focus on the economy, the pandemic recovery and EU relations, with fiscal stability, digitization and innovation also among the clear priority areas. The incoming coalition of five parties does pose risks for government stability in the long run, particularly along ideological fractures in social issues. However, all prospective ruling parties are united in their opposition to Babiš' ANO party and the hard Eurosceptic SPD, so are strongly motivated to keep the government together. The future of the Czech Presidency could also cause concerns if Zeman's health deteriorates again, although the President has vowed to complete his second term, set to end in 2023. Babiš is widely expected to run for President next time around, showing his determination to remain in politics for the long-term.

###

*If you would like to schedule a discussion of this paper, please contact:
Aleš Pospíšil, Country Director for the Czech Republic, at a.pospisil@kesarev.com*

Kesarev

Kesarev is the leading independent public affairs and government relations consultancy in Central & South-East Europe, Russia, Ukraine, the post-Soviet area and Turkey and Israel, covering 25 countries and specializing in government and corporate affairs, risk management and corporate reputation services. Since 2014, Kesarev consultants have been ranked by The Best Lawyers in the areas of Government Relations, Government and Regulatory Practice, including the "Best Lawyer of the Year" award. Kesarev partners were recognized among the Top-20 communications managers by the TOP-COMM rating in 2020 and 2019 and within the Top 1000 Managers of Russia rating in 2017, 2015 and 2014.

www.kesarev.com