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## The Czech Elections: The Winner is certain, the Outcome not

The winner of the upcoming Czech elections is pretty certain. Nevertheless the shape of the future government remains unclear. We argue that markets could be more sensitive to the outcome of the election this time than has been the case in the past.

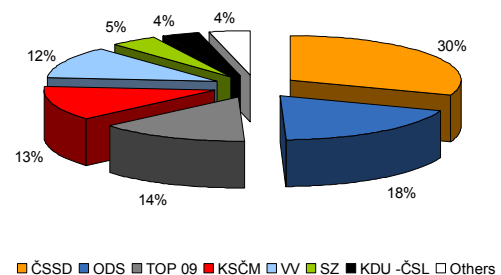
The winner of the upcoming early election in the Czech Republic is fairly certain: the Social Democrats (aka CSSD, with up to 30% of voter support). However, the composition of the next government is anything but certain. The situation has been significantly complicated for the leading Social Democrats by the new 'small' parties, which may prevent the Left from forming a government. The newly emerged parties include the right-wing TOP 09 (up to 14% of voter support) and the relatively unclear centre party Věci veřejné (Public Affairs, aka VV; up to 11.5% of voter support). If the two additional small centre parties whose voter support is on the brink of the 5% electoral threshold, i.e., the Green Party (aka SZ, with 4.5%) and the Christian Democrats (aka KDU-ČSL, with 3.5%), are elected to the Chamber of Deputies, the spectrum of possible post-election coalitions will be fairly wide.

As far as the policies of individual parties are concerned, TOP 09, the Civic Democrats (ODS = the main right-wing party), and the Green Party (SZ) highlight public finance issues the most. However, their policies, except for that of TOP 09, are not very specific, and therefore their revenue and expenditure measures are not easily measurable. For the Left (the Social Democrats and the Communists), budgetary problems are a secondary concern, overshadowed by numerous plans to spend money. Also, with the exception of ODS and TOP 09, most parties are in favour of making taxation more progressive. Most parties will not hasten to adopt the euro either. The current debt problems of the eurozone tend to encourage most parties to adopt a wait-and-see attitude towards euro. ČSSD, the most euro-friendly party, has pushed the relevance of the euro down on its list of priorities, due also to its reluctance

to resolve the budgetary problems, and does not intend to adopt the euro until 2016.

	Budget target	Detailed budget measures	Euro target
ČSSD	3% GDP in 2013	No	2016
ODS	3% GDP in 2012	Partly	No
TOP 09	0% GDP in 2013	Yes	No
KSČM	No	No	No
VV	No	No	No
SZ	No	Partly	No
KDU-ČSL	No	No	No

Preferences, CVVM 19.5.2010



Historically, markets have never considered elections in the Czech Republic to be of any great importance. However, this may change somewhat this time. A left-wing government of CSSD and the Communists might spark a negative reaction, as it would imply the risk of by far the lowest fiscal discipline. Over the course of time, however, any coalition that would refuse to tackle the structural problems of public finances might be punished. The structural budget deficit is close to 6% of GDP and the low government debt will not be an argument for postponements forever. Therefore rating agencies have made it clear that they will want to see a clearer plan to address the structural problems of public finances after the election.

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