

EUROPE: CEE PULSE

Serbia and **Kosovo** are inching closer to a new agreement on the normalization of relations, but a pathway to a comprehensive and sustainable solution of the conflict remains long. In **Estonia**, the ruling Reform party is on course to win the 5 March parliamentary elections and lead the formation of a new coalition government. **Lithuania's** municipal elections on 5 March could be seen as a test for the ruling center-right TS-LKD party, which has been gradually losing its public appeal. In **Poland**, the opposition parties are stepping up preparations for a parliamentary election to be held in October or November. Finally, the **Czech** government is seeking to slow down the pension increases planned for mid-2023 and is hinting at new taxes.

Serbia/Kosovo

On 27 February, Serbian President Aleksandar Vucic and Kosovo Prime Minister Albin Kurti gave a tacit approval for the EU-brokered proposal on the normalization of relations. The much-discussed plan was made public on the same day and entails 11 points. Importantly, the document requires that Serbia not object to Kosovo's membership in any international organization, respect Kosovo's independence and territorial integrity, and recognize its national symbols and documents. Meanwhile, Kosovo is required to ensure an appropriate level of self-management for the Serbian community in Kosovo, including financial and communication links with the Serbian government. The EU-mediated dialogue will now focus on reaching an agreement on the implementation modalities and a new meeting between Vucic and Kurti is planned sometime in March. As previously noted, a new high-level agreement could put bilateral relations on a more predictable course, but a pathway to a sustainable and comprehensive resolution of the conflict remains long and challenging. The implementation of any new deal would likely face significant domestic and external headwinds.

Poland

Yesterday, 28 February, four main opposition groups – Civic Platform (PO), Poland2050 (PL2050), the Left and the Polish People's Party (PSL) – agreed to cooperate in the Senate (upper chamber of parliament) elections, where members are elected in single-member districts. Such cooperation has already helped opposition to a slim majority in the Senate back in the 2019 general elections. In the Sejm (lower chamber) elections, the opposition parties are unlikely to field a joint list. Instead, three electoral blocs are emerging: first, a coalition of left-leaning parties united under The Left banner; second, a coalition of centrist parties running under the Civic Coalition list; and third, a center-right bloc of PL2050 and PSL. According to the latest polls, the opposition would win a slim majority in the more powerful lower chamber of parliament. Electoral campaigning is likely to pick up and start dominating the country's political scene in the coming months.

Estonia

Early voting has started in Estonia's parliamentary elections, which will be held next Sunday, 5 March. The ruling Reform party is on course to win most mandates in the 101-seat parliament and have the best chance of forming a new coalition government led by Prime Minister Kaja Kallas. Reform could potentially cooperate with all parliamentary parties except for the right-wing Conservative People's Party, but a partnership with liberal newcomers Estonia 200 and the Social Democratic Party is the most plausible scenario. Another Kallas cabinet would mean policy continuity in most areas, including a strongly pro-Western stance, conservative fiscal management, a stable tax system, and a greater focus on national defense and green energy.

Lithuania

Municipal elections scheduled for 5 March will be a test of for the ruling center-right Homeland Union-Lithuanian Christian Democrats (TS-LKD) ahead of the next-year parliamentary elections. Besides various public electoral committees, which traditionally win local elections, TS-LKD was one of the top performers in the previous municipal vote back in 2019. However, the ruling party has been gradually losing its public appeal on the back of a series of domestic and external crises, including the Covid-19 pandemic, a refugee crisis on the Belarusian border, the energy price shock, and the war in Ukraine. These crises not only presented unprecedented new challenges to Ingrida Simonyte's (TS-LKD) government, but also distracted from long-awaited domestic reforms in the areas of education, healthcare, and the tax system. The growing disappointment in TS-LKD favors center-left parties, namely the Social Democratic Party of Lithuania (LSDP) and a newcomer the Union of Democrats "For Lithuania" (DSVL), which are now leading the polls.

The Czech Republic

The parliament is considering a government's proposal to lower the increase of the average pension from the currently planned CZK 1770 (EUR 76) to CZK 760 (EUR 32.5) at the start of June. According to Petr Fiala's (Civic Democratic Party, ODS) cabinet, such a steep indexation of pensions (which is due to unexpectedly high inflation) would cost the budget an additional CZK 34bn (EUR 1.45bn) in 2023 and CZK 58bn (EUR 2.5bn) in 2024. The government's proposal faces stark criticism from the opposition parties, which are obstructing the consideration process in parliament. While the proposal is likely to be adopted by a majority of votes in the governing coalition parties, opposition intends to request the constitutional court to review the bill and its adoption process. The bill might be also vetoed by President-elect Petr Pavel, whose inauguration is scheduled for 9 March.

To finance the additional spending, the governing coalition is discussing various proposals for new/higher taxes, although this contradicts electoral promises of the largest ruling party ODS not to introduce any new taxes during its term in office. The combined effect of a slower pensions' increase and new taxes could significantly lower public support for Fiala's coalition government.

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