

Ireland: Election upset makes government formation a challenge

Sinn Fein has won the popular vote in Saturday's elections, but as latter rounds of voting come in Fianna Fáil is set to take the most seats in the Dáil. A difficult government formation seems likely



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What do we already know?

As results continue to come in, the new Dáil – Irish parliament – is shaping up. At the moment of writing counting is still on, but some early conclusions can be drawn as 120 seats out of 160 have already been filled.

The first preference vote has been won by Sinn Féin, which almost doubled its vote percentage to 24.5%. The traditional two largest parties Fine Gael and Fianna Fáil were therefore upset in these

elections and received 22.2% and 20.9% of the popular vote respectively. This does not necessarily mean that Sinn Féin will become the largest party though as the Irish voting system includes multiple preferences which are taken into account. Sinn Féin has also only listed 42 candidates, limiting their chances of taking the largest share of the vote substantially. It is now expected that Fianna Fáil will come out with the highest amount of seats in parliament.

Even though the final seat count still has to come in, Ireland will have a hung parliament and therefore follow the broader European trend of more fragmented politics. It therefore seems logical that Ireland is set for a complicated government formation. With Prime Minister Leo Varadkar's Fine Gael dropping to the third largest party in the popular vote, it will not be up to Fine Gael to form government. Sinn Féin's Mary Lou McDonald has declared victory and has urged the main parties to include Sinn Féin in coalition talks. Fianna Fáil has recently opened the door to talks with Sinn Féin, even though there are large differences to overcome between the two. A coalition without either of the two traditional parties or including the Greens has also been mentioned but any option seems to require significant hurdles to overcome.

The financial market response has been lukewarm so far. While Irish stocks underperformed their European peers today, the bond market impact was modest and yields on the Irish 10-year government bond even dropped during the day. Sinn Féin proposals on the economy are less conservative – especially on housing market issues - than those of Fine Gael and Fianna Fáil, but how this election will change Irish economic policies remains a big question mark given the difficulty of government formation. As Irish government debt is lower than the Eurozone average and a relatively fiscally conservative 2020 budget has been submitted, a longer government coalition phase is unlikely to have immediate consequences from a public finances perspective.

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