

Irish elections: an upset in the making?

On Saturday, Ireland will go to the polls for a snap election called by Prime Minister Leo Varadkar. While momentum has been lost by the ruling Fine Gael party and won by nationalist party Sinn Féin, the chances of a large change in government policy remain slim ahead of the vote



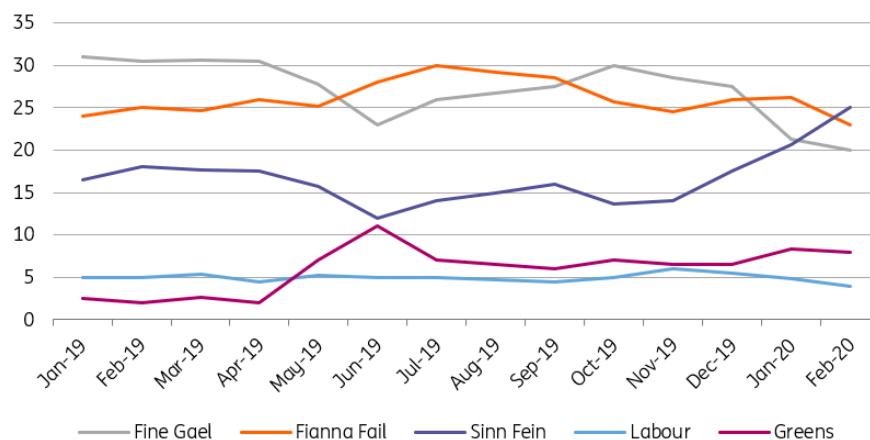
Irish Prime Minister and leader of the Fine Gael party Leo Varadkar poses with the leader of the Fianna Fail party Micheal Martin and Sinn Féin President Mary Lou McDonald before the start of an RTE TV debate in Dublin

Sinn Féin's surge

Ireland's general election on Saturday takes place against a mixed backdrop. While recent local election results have been poor for Fine Gael leader Varadkar, his handling of the Brexit withdrawal bill has been received well and the economy remains strong. From an outside perspective, in particular, these last two issues seem to give Varadkar's party a comfortable platform to campaign on, but the momentum seems to have been moving away from him in recent weeks. As domestic issues like housing and healthcare have taken centre stage in the elections, Sinn Féin has surged in the polls. They have taken votes from both Fine Gael and the main opposition party Fainna Fáil and are now head-to-head in the polls. In fact, an Irish Times/IPSOS MRBI poll put Sinn Féin in the lead at 25% earlier this week, with both the traditionally large parties trailing by a small margin.

Irish polls show a dramatic swing near the elections

Note: monthly data are an average of polls. August data is interpolated.



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The most likely outcome

Sinn Féin’s proposed policies would represent a significant move to the left. It has proposed a sizable increase in taxes and government spending, with a strong focus on improving the housing market. The proposed plans have been met by opposition from leading parties, which have stated that they could have a disruptive effect on investment in the housing sector. Sinn Féin’s spending plans are quite different from the other main parties as both Fine Gael and Fianna Fáil have committed to limit fiscal space to the €11 billion that the Ministry of Finance forecasts to be available over the 2021-2025 period. Sinn Féin’s plans would amount to double that, which is still by no means a radical number.

From an economic policy perspective, Fine Gael and Fianna Fáil do not diverge all that much. In terms of corporate taxes, both oppose an EU-wide proposal. This is relevant to Ireland given its dependence on multinational investment and the jobs that this creates. On Brexit, both have committed to as close a trade relationship with the UK as possible and stress the importance of a level playing field, which is in line with the European Commission’s position. Both plan to reduce the income tax burden, with Fine Gael committing to a larger cut than Fianna Fáil.

The Irish-German 10-year government bond spread increased only a little over the past few days, by about 10 basis points, as worries about a radical change in government policy seem to be overdone. If indeed Sinn Féin wins the popular vote, this does not necessarily mean that it would become the largest party. Ireland has a relatively complex voting system (which includes second, third, fourth and fifth preferred candidates) that favours the larger parties, and Sinn Féin is running with a small amount of candidates. Sinn Féin does not rule out becoming a minority party in government under a prime minister from either Fianna Fáil or Fine Gael, but this is unlikely as both of the largest parties have ruled out a coalition with Sinn Féin so far. A government led by one of the two establishment parties, with minority support from the other, seems to be the most likely outcome at the moment going into these elections, which would largely mean continuity from a financial and economic policy perspective.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

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