

Spain: Difficulties forming a government

Finding a majority to install Pedro Sánchez as the next prime minister has failed today, which means fresh elections in November are on the cards. Despite the uncertainties, we believe the Spanish economy will grow by 2.2% in 2019 and 1.5% in 2020



Spain's caretaker Prime Minister Pedro Sánchez arrives at the Spanish parliament in Madrid.

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Almost three months after the general election, today's attempt to install Pedro Sánchez as Spain's prime minister has failed. For this to have become a reality, he needed a majority in parliament and this implied 176 supporting votes. His own party, the PSOE only controls 123 seats and so he needed support from other parties.

In his speech to parliament yesterday, Sánchez tried to convince other left-wing parties to support him. He discussed issues such as better jobs, making the economy greener, gender equality and more European integration and also provided some specific policy proposals, such as raising education spending to 5% of GDP and increasing the minimum wage again after the 22% increase this year. If a left-wing government is installed in Spain, we can expect more government spending.

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But it seems that his speech was not enough to get support from left-wing parties. Traditionally, support would have come from Podemos (42 seats), but after yesterday's debate, Pedro Sánchez was criticised by Pablo Iglesias - the leader of Podemos, which mean their support is certainly not granted. But what's more important is that Podemos support won't really be enough to get the 176 supporting votes. He would still need 11 votes from other parties.

A second vote will now be held on 25 July. For this vote, only a simple majority (more than 50% of all casted votes) is needed, which is slightly less difficult to attain. But it is certainly not a done deal that the vote on Thursday would work for Sánchez as the relationship with Podemos remains difficult.

If Sánchez fails to get a majority today, then a second vote will be held on 25 July

If Sánchez fails also to win the vote by a majority on Thursday, then Spanish politicians have two months to try again. And if they do not succeed, then new elections will take place on 10 November. A lot of uncertainties before we get to new elections, but we wouldn't rule it out just now.

For the last four years, political uncertainty in Spain has been a constant factor. When the economy was growing by more than 3% on an annual basis, this wasn't much of an issue. But now, when the economy is slowing, it could start to bite. The political problems, however, stem from complicated issues that are not solved easily, namely the political fragmentation after the government debt crisis and Catalan crisis. Hence, we do not expect that it will fade any time soon.

Our economic forecasts remain unchanged as we believe the Spanish economy will grow by 2.2% in 2019 and 1.5% in 2020. If the political problems become severe, then a mild increase in bond spreads seems likely, although ECB policy remains a strong countervailing force.