Spain: Enter another minority government

Pedro Sanchez, the leader of the socialist party PSOE, is the new prime minister of Spain after his no-confidence vote against Mariano Rajoy passed in parliament. We expect the economic impact to be low in the short-run

Spanish Prime Minister Pedro Sanchez, leader of the Socialist Workers' Party (PSOE)

Weak government raises odds of snap election

Sanchez said he wants to keep the 2018 budget and to continue to follow the stability programme presented by the previous government under the European semester, at least for this year. He will try to pass the 2019 budget and he does not want new elections.

The just-ousted government, led by Rajoy, was also a minority government with 134 seats in a parliament of 350 and governing was already difficult. As the PSOE only has 84 seats and there is no talk of a formal coalition, it will be even more difficult to govern. Officially, new elections are planned in 2020. But given the weakness of the new government, a snap election in the coming months is more likely.

These developments, of course, introduce some uncertainty into the economy. But we expect the overall impact to be low. As Sanchez will carry on with the fiscal policy decided by the previous government, financial markets should not worry about a spending surge by the new government for now, as in Italy. Admittedly, Sanchez could try to go for larger fiscal stimulus in the 2019 budget, but it remains to be seen if he will succeed in getting that budget through parliament.

Economic activity is strong

There are two further reasons why Spain is not really a threat to economic stability:

- First, support for Europe is firm in Spain. The Eurobarometer of November 2017 showed that 21% of Spaniards think their country would fare better outside the EU, while the EU28 average was 31%. In Italy this was 46%.
- Second, current economic activity continues to be great. Yesterday, GDP growth in 1Q was confirmed at 0.7% quarter-on-quarter, while the year-on-year growth rate was revised upwards by 0.1 percentage points to 3.0%. Exports also grew faster compared to 4Q 2017 and so Spanish activity does not seem to be affected by the Eurozone slowdown in 1Q. Here too, this is in contrast to the Italian economic performance of 0.3% quarter-on-quarter growth in 1Q.

The Spanish-German bond spread rose only a few basis points after the announcement and is still close to 50bp lower compared to Monday on the back of more favourable recent political developments in Italy.