

Spain: Politics bubbling up again

Prime Minister Pedro Sanchez only received 88 votes out of the 350-seat parliament for his 2019 budget plans. Even though Sanchez is not in favour of snap elections, it cannot be ruled out



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

With only 84 seats under control, Socialist Prime Minister Sanchez was never going to have it easy. As expected, he did not succeed in convincing the seven parties to support his budget plans in parliament. Notably, Podemos wanted softer deficit targets and higher spending, but the government opposed it.

Only two months ago, the seven parties supported a no-confidence motion that toppled the former Prime Minister Mariano Rajoy and put Sanchez at the wheel.

Sanchez wants to stay on until the next planned national elections due in mid-2020 even though he could capitalise now on his increased personal popularity and that of his party. But if the opposition and allies keep opposing proposals from the government, then the current situation is unsustainable. For us, the probability of a snap election is now higher compared to a few days ago.

Meanwhile, the economy is still in good overall shape, evidenced by a sharp drop in the unemployment rate in 2Q18 to 15.3% from 16.7% in 1Q18. More forward-looking indicators, however, suggest that an acceleration in 2Q seems unlikely. While remaining firmly above 50, PMIs declined in 2Q. Retail sales growth was flat in 2Q, compared with an average YoY growth rate of

1.9% in 1Q. The first estimate of GDP growth for 2Q is out on Tuesday. We forecast a quarter on quarter growth rate of 0.6%, compared with the 0.7% QoQ growth in 1Q.