

Spain: PSOE-led minority government most likely outcome

Political fragmentation and polarisation will continue to plague Spanish politics and this could have implications for the fiscal deleveraging process. Pressure on politicians to find a solution, however, makes a PSOE-led minority government the most likely outcome of this weekend's elections



Latest polls show that Spain's Socialist Workers Party, the PSOE, should remain the largest party but may lose some votes compared to the April election. The party is projected to receive 27% of the vote, giving it about 117 seats. In April, it received 29% of the vote and 123 seats. The People's Party (PP), on the other hand, is forecast to do better, with polls showing that it will receive 20% of the vote, up from 17%. This has a large impact on seats, potentially rising to 90 - a gain of 24 compared to the previous election.

The two main opponents who challenged the two traditional parties (the PP and the PSOE) after the financial and eurozone crisis are likely to lose votes and seats, according to the latest polls. Citizens could get half of the votes received back in April, falling to just 8% from 16%. In terms of seats, this suggests a drop to just 14 from 57, limiting the party's power. The left-wing Podemos is

also projected to lose some votes, though the fall may be less dramatic compared to Citizens. The party may get 13% of the vote compared to 14% during the previous election. This implies 34 seats in parliament, down 8 from the last election.

Far right likely to advance further

Citizens and Podemos control 99 seats in parliament, but the polls indicate that this could drop to about half of that. Does this mean that the political fragmentation will be less severe? Not really. The far-right party VOX, which won 10% of the vote and 24 seats, is likely to gain a lot. Polls indicate that the party could win 16% of the vote, which implies 55 seats, more than double what they won during the April election. Thus, Spanish political fragmentation, and also polarisation, is likely to stay with us for some time.

Possible outcomes

These polls also show that no party will receive the required number of seats (176) for a majority in parliament. This implies that there are two options concerning government formation:

- One is a coalition government, something that's never happened before in modern democratic Spain. The polls indicate that the right bloc (PP, Citizens and VOX) could gain seats (from 147 to 159) but not enough to form a majority. On top of that, a real coalition with VOX seems unlikely. The left bloc, together with regional parties (PSOE, Podemos and Catalan and Basque parties), would be a coalition with enough seats (about 182), but a big question mark surrounds the Catalan parties. The situation is still tense, and the relationship between the PSOE and the Catalan parties remains difficult. After the last election, a coalition between the PSOE and Citizens was possible, but the polls show this is not the case anymore.
- The second option is for a minority government. If enough parties abstain during the second vote to install the government, then a minority government could be formed. The PSOE, as the largest party, will probably pursue this strategy. The stability of such a minority government would, of course, be low.

Fiscal implications

This political stalemate could have implications for the fiscal picture. During the last couple of years, government debt as a percentage of GDP declined. This was due to both strong economic growth and fiscal measures. If there is no solid government, however, it is more difficult to continue the deleveraging process. The European Commission (EC) recently published its Autumn forecasts which showed that the debt level is expected to drop to 96.7% this year from 97.6% in 2018. But the forecast for 2020 (96.6%) shows that the downward trend is coming to an end. The EC also doesn't project further deficit reductions.

Voting intentions appear to have changed since the April election. But these changes will not make it easier to form a government so the political situation is likely to remain difficult after this weekend's vote. Still, pressure to find a solution after four elections in as many years will rise. In our view, a minority government led by the PSOE is the most likely outcome.

