

Spanish elections: Left-wing government most likely

The Socialist party of Prime Minister Pedro Sanchez has convincingly won the parliamentary elections. A left-wing (potentially minority) government looks the most likely outcome



Source: Shutterstock

The results

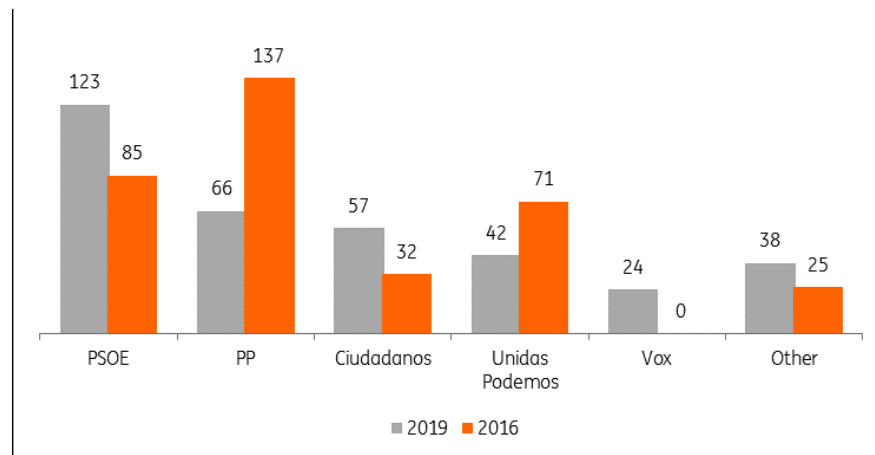
Last weekend's elections in Spain were the third in four years. The minority government of socialist Pedro Sanchez had been unable to convince the Catalans to support his budget and therefore had to call early elections.

As expected, Sanchez's PSOE will become the largest party in Spain. The party won 123 seats, up from 85 in the previous elections in 2016. The other big left-wing party, Unidas Podemos, won 42 seats, a drop of 29. The two large left-wing parties, with 165 seats in total, fall short of the 176 seats needed for a majority.

On the right, the Partido Popular (PP) recorded a larger loss than expected. Their number of seats fell from 137 won in 2016 to 66. The liberal party Ciudadanos, in turn, scored better, moving from 49 to 57 seats. The new party Vox gained 24 seats. This means that no majority can be formed on the right either and that the total number of seats of the three largest right-wing parties (147) is

smaller than that of the PSOE and Unidas Podemos.

Election results



Source: Spanish Interior Ministry

What options do Sanchez have?

Since the PSOE is the largest party, it is Sanchez's turn to form a majority. The voters gave him two options:

- A coalition with Unidas Podemos and the Catalan Esquerra Republicana would yield a total of 180 seats. Esquerra Republicana is the more moderate of the two major Catalan pro-independence parties. However, it will not be easy to convince this party. The Catalan issue remains a hot topic. Sanchez said before the elections that a new independence referendum would be against the constitution and that he will not allow it. A minority government with only Podemos and with the support of Esquerra Republicana and / or other parties is also possible.
- A government with the Liberal Ciudadanos is possible in theory (with a total of 180 seats), but in practice this seems unlikely. Albert Rivera, the leader of Ciudadanos, already ruled this out before the elections. He thinks Sanchez was too indulgent to the Catalans when he was Prime Minister. It also seems unlikely that the PSOE wants to rule with Ciudadanos - during the victory speech, PSOE supporters shouted "Not with Riviera". Sanchez himself, however, said yesterday that he is keeping all options open. Negotiations with Ciudadanos are not currently under discussion. We think that this will only happen if negotiations with the other parties fail.

The first option looks quite feasible, although any longer stalemate could lead to new elections.

Economic Impact?

A long-lasting political impasse can negatively affect the economy, causing companies and consumers to postpone investment decisions and wait to recruit.

Although political uncertainty has been high in Spain in recent years, the economy has performed well. It has benefited from structural reforms and from the strong global economy. These factors are less supportive today.

Since we do not yet know which government will come to power, it is impossible to evaluate the impact of future policy. What we can say is that many typical differences between left and right apply in Spain. For example, the right wants to make the labor market more flexible while the left wants to strengthen the rights of employees.

The budgetary space will also be limited for the next government. It is true that the fiscal situation in Spain has improved in recent years, but public debt remains too high. In 2018 the budget deficit was 2.5% of GDP, compared to 3.1% in 2017. However, debt stands at 97.1% of GDP, requiring that it decrease at a fast enough pace to satisfy European rules.

These elections do not change our outlook for the Spanish economy at the moment. We expect growth of 2.0% in 2019 and 1.6% in 2020. We believe that the slowdown in the Spanish economy is mainly due to a weaker external environment and a return to more normal growth rates. The bond market did not react much to the election results. Indeed the Spanish spread with Germany remained at about 100 basis points. However, if political uncertainty lasts for a long time, some minor upward pressure on spreads seems likely.

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