

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

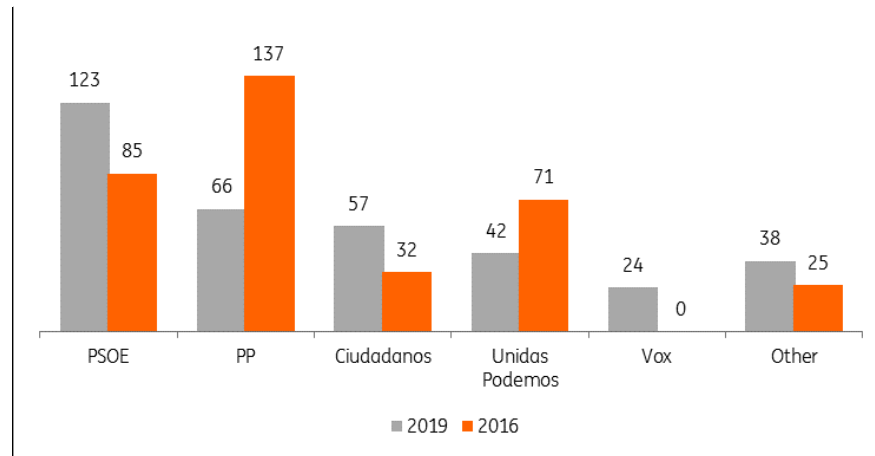
Last weekend's elections in Spain were the third in four years. The minority government of socialist Pedro Sanchez had been unable to convince the Catalans to support his budget and therefore had to call early elections.

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 Rivera". 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.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com