

## Spanish growth remains strong despite political woes

While Spanish politics remain a source of concern, economic activity is strong. Financial markets, in contrast, are watching the political scene with scepticism, though contagion from Italy seems the biggest culprit



### Strong economic activity

Growth in 1Q is confirmed at 0.7% quarter-on-quarter, while the year-on-year growth rate is revised upwards by 0.1 percentage points to 3.0%. A breakdown of the figures shows that domestic demand grew a bit faster compared to 4Q 2017. Household consumption, investment and government consumption grew by 0.7%, 0.8% and 0.5%, respectively, and in all cases, this was by 0.1 percentage point more compared to the previous quarter. Both exports and imports grew by 1.3%, implying that net exports growth was flat.

As exports showed stronger growth than in 4Q 2017, we can conclude that Spanish activity does not seem to have been affected by the eurozone slowdown in 1Q. Also, even though consumer confidence and PMIs edged lower in 1Q, this did not impact actual domestic activity.

### Political problems in abundance

It seems Spain's growth performance has not been impacted by the numerous political problems. The most pressing issue is the no-confidence motion filed by the socialist, PSOE, against Mariano Rajoy after his Popular Party was sentenced in a corruption case. The vote is planned for tomorrow.

The motion needs an absolute majority, 176 of the 350 MPs, and reaching that number seems to depend on the Basque National Party, PNV. If the PNV does not support the motion, then the vote should get 175, one vote short of passing.

Podemos and most regional parties, including the Catalan pro-independence parties, said they will vote in favour of the motion. Ciudadanos, the liberal party that supports Rajoy's minority government, said it does not support the motion. Instead, they asked for new elections.

Recent polls show that Ciudadanos is now the largest party in Spain and so it is not surprising that they are in favour of new elections. Furthermore, as the motion is supported by pro-independence parties, it is difficult for the unionist party Ciudadanos to support the motion.

The second big political problem is in Catalonia. As there is no new regional government yet, article 155 of the Spanish constitution is still in force in Catalonia. The new president, Quim Torra, proposed a new government yesterday, and this time without exiled or jailed ministers. Once the new government is sworn in, Article 155 could be lifted. But of course, political problems on the national level could hamper this process.

## Financial markets react, but also partly due to Italian contagion

The spread between Spanish and German government bond yields increased quite a bit in the past few days. This was, however, also due to the political crisis in Italy. Portuguese spreads, for example, also shot up and there are no similar political problems. So the spread could widen further if political tensions in Spain, but also in Italy, intensify.

Notwithstanding the political turmoil, we remain positive about the Spanish economy, forecasting 2.6% growth in 2018. Some forward-looking indicators, such as employment expectations in the manufacturing industry, have declined a bit since the beginning of the year, but remain at optimistic levels.