

Spain: Left-wing coalition government getting more likely

The most important Catalan party, the ERC, said it will abstain in a confidence vote to install the PSOE-Podemos minority government. This eases the political gridlock and uncertainty, but the situation remains tricky. Spanish government bond spreads have not moved much on this news



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The PSOE and Podemos together have 155 seats in parliament, 21 short of a majority. So in order to get this government running, they need to convince others to support them or to abstain. It now looks like they've succeeded in this.

In a first vote to be held this Sunday an absolute majority is required, but in a second vote planned on Tuesday, the coalition just needs more votes in favour than against. As the ERC (13 seats), and Bildu (4 seats), the far-left Basque secessionist party, said they will abstain, it looks now likely the government will get the green light.

The ERC decided to abstain as Pedro Sánchez, the leader of the PSOE, agreed to start talks between the government and the Catalans. A new Catalan referendum, however, is out of the question for Sánchez.

In the meantime, the judicial process concerning the 2017 referendum is continuing, which will make the negotiations more difficult. A sensitive decision by Spanish electoral authorities concerning the disbaring of Quim Torra, the current Catalan president, for example, is imminent.

Last week, the PSOE and Podemos communicated their programme, and the policies they advocate are not surprising. They want to raise taxes on corporates and the rich and also want to raise the minimum wage. They also pledged to abolish some of the most controversial issues of the 2012 labour reform, such as the ability to fire workers during sick leave. The government will not be able to increase spending a lot. As the Spanish government debt level is still about 97% of GDP and the government deficit about 2.2%, there is little leeway.

Bond markets did not react much to this news. Spanish government bond spreads were little changed. Admittedly, this development eases the political gridlock and uncertainty as there is now a clear path to a new government. But the political landscape remains tricky nonetheless. The new government would be a minority government, the Catalan tensions could flare up again as the judicial process continues, and the fiscal situation makes it difficult to increase spending a lot.