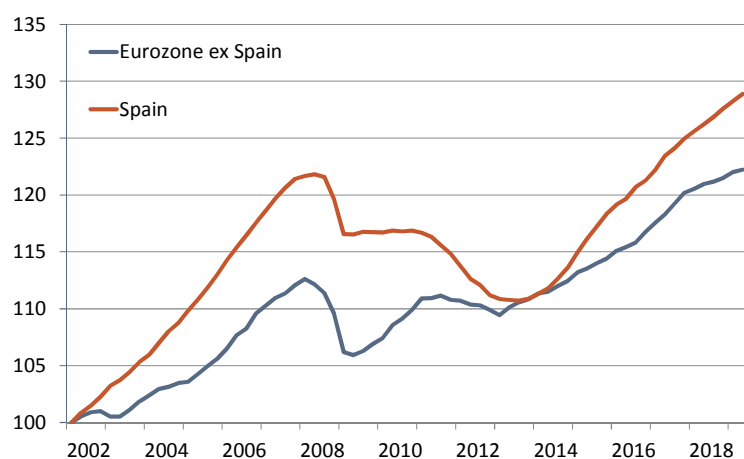


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20 September 2019

Elections in Spain, again: limited risks

Solid recovery after the crisis: Spanish versus rest-of-the-Eurozone GDP



Real GDP, indexed at Q1 2002=100. Source: Eurostat.

- Heading for the polls again:** On 10 November, Spain will likely hold its fourth election in less than four years. Since the last vote on 20 April, the Socialists' acting Prime Minister (PM) Pedro Sanchez was unable – or unwilling – to secure the backing from left-wing Podemos. As in April, the economic impact of the ballot will likely be limited. Unless a new government were to turn sharply to the left, Spain will remain a bright spot in the Eurozone.
- Hung parliament:** According to current polls, snap elections will not resolve the daunting parliamentary arithmetic. While the Socialists could do better than in April (31.4% versus 28.7%), they will probably struggle again to command an outright majority with Podemos (unchanged at 14%). Voter fatigue could turn into a headwind for the left. We would expect the three parties on the right – centre-right Ciudadanos, the conservative Popular Party (PP) and far-right Vox – to be more pragmatic in forming a government. However, barring a major surprise, they will also lack the numbers. That the Ciudadanos and/or PP abstain in a confidence vote after the election to allow Sanchez to form a regular government seems unlikely. The rift between the left and right looks too wide. Chances are also low for a coalition between the Socialists and Ciudadanos as the latter has moved from the political centre to the right.
- A leftist government at last?** On the day after the election, Spain could therefore be back to square one and a Socialists/Podemos coalition the only viable option. This time, the pressure on the two parties to reach an agreement could be big enough. Back in H2 2018, they had briefly managed to join forces and to push through controversial measures such as the 22.3% increase in the minimum wage in early 2019, which was also supported by Ciudadanos.
- More of the same:** A Socialists/Podemos coalition, possibly supported by some regional parties, would raise taxes for higher earners and large companies, increase welfare spending, index pensions as well as reverse some previous pro-growth reforms, especially the PP's labour market ones. Beyond the excessive rise in the minimum wage, we do not expect major reversals, however. That Podemos could set the agenda is unlikely: the party has lost support and Sanchez would resist to hand it the economic portfolio. A right-of-the-centre government would be mildly positive as the risk of social giveaways and reform reversals that could constrain Spain's trend growth would be lower.
- Limited impact:** In a recession, the full costs of fiscal excesses and reform reversals may show up. For the time being, Spain could cope with a left/left alliance. Courtesy of serious pro-growth reforms, the Spanish economy has rebounded in a V-shaped fashion since late 2013. Its GDP expanded by 16% versus only 10% in the rest of the Eurozone. In [Berenberg's regular ranking](#) of adjustment progress, Spain has consistently taken a top slot since 2011.
- Markets are calm:** The spread of Spanish over German 10-year bond yields, a sensitive barometer of the perceived quality and sustainability of economic policies, has barely edged higher over the past months. The ECB's dovish turn has surely compressed spreads across the board in the Eurozone. Still-robust growth, pro-European mainstream parties and the prospect of a weak government which will not meddle much with the economy add to that in Spain's case.

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