



Florian Hense, Economist | Florian.hense@berenberg.com | +44 20 3207 7859

SPAIN: END OF POLITICAL STALEMATE?

Berenberg Macro Flash

After seven months of stalemate, Spain may be one step closer to the end of its political paralysis. The liberal Ciudadanos party will likely decide today to allow Mariano Rajoy to form a minority government by abstaining in the decisive vote in parliament. While this would not suffice to give Rajoy the edge, it will likely put pressure on the mainstream Socialists and some small regional parties in the Spanish parliament to follow suit instead of provoking another repeat election. A minority government may not get much done. But it would not roll back the successful reforms of the previous years either. For Spain, that would be good enough.

In order to become prime minister after the 26 June repeat elections yielded another stalemate, the centre-right leader Rajoy needs more “yes” than “no” votes in a second-round vote in parliament. His Popular Party holds 137 out of 350 seats. Yesterday, Albert Rivera from Ciudadanos signaled that its 32 members of parliament will likely decide to abstain when they agree on their official position today. According to Rivera, the country has to “get moving”. He ruled out a third election after meeting the caretaker prime minister Rajoy.

While such a move would bring Rajoy and Spain closer to a new government, the numbers would still not add up. Rajoy would still have to persuade many Socialists, with 85 seats, to also stand aside instead of voting against him. The Socialists’ leader Pedro Sanchez has said it won’t back a Rajoy administration under any circumstances, though senior figures have said that may be the party’s best option as it seeks to rebuild support after its worst ever election result. Rajoy has called for the support of the Socialists in order to avoid a third election. He is due to meet Socialist leader Pedro Sanchez today.

If Ciudadanos abstains and only the 137 MPs of Rajoy’s centre-right Popular Party vote for him, he would need at least 46 other deputies from other parties to abstain. As the radical left Podemos (71 seats) is highly unlikely to play any constructive role, these votes would have to come from the Socialists (85 seats) and/or regional parties who, between them, have 25 members of parliament. For Rajoy there are two options that could put him back in the premiership: The first option is that he manages to receive the support from at least 23 additional deputies of other parties. Up to six MPs of regional parties (the centre-right Basques and a deputy from the Canary Islands) may do so, probably in exchange for some political concessions. But beyond that, Rajoy would still need many Socialist MPs to abstain as well.

The inconclusive elections have left the country with no more than a caretaker government for more than 6 months. A looser fiscal stance, largely the result of insufficient central controls over regional spending, has sent fiscal policy off course. The budget deficit clocked at 5.1% of GDP last year, above the 4.2% target agreed with the European authorities. The EU this week opened the door to fines for Spain, but still has to decide within the next 20 days (until 1 August) whether it will give Spain a red card (sanctions of up to 0.2% of Spain’s GDP that is equal to €2.2 bn) or only a yellow card (zero or very small fine). Sustained political uncertainty, particularly a third round of general elections and sanctions, would do no good to the Spanish economy. For the time being, the economy continues to race ahead of its neighbours in the euro zone. Whereas the unemployment rate is still close to 20%, unemployment is falling rapidly. For 2016 we expect GDP growth of 2.8% after 3.2% in 2015. Resolving the political uncertainty within the next three weeks would remove the downside risks which a third round of elections could otherwise entail.



MACRO NEWS

Seats in the Spanish parliament and voting shares June 2016



Source: Spanish election commission.

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Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7859
www.berenberg.com
florian.hense@berenberg.com