

Spain

Back to the ballot box

Spanish voters will be called back to the ballot box on 10 November, but there is no certainty that the election results will pull the country out of its current impasse. The political landscape is still too fragmented to produce a lasting coalition. The line to follow in the face of Catalan independence only exacerbates the divisions and helps justify the lack of co-operation. Meanwhile, growth has slowed somewhat more sharply than originally expected, although it is still holding around 2%, a performance that would be welcomed by many of the other big European economies. The elaboration and adoption of the 2020 budget bill will have to wait until a new government is formed.

■ A political impasse

Chalk up another collective failure for Spanish politics: although Pedro Sanchez clearly won the early legislative elections held on 28 April, he failed to form a government capable of winning the support of a parliamentary majority. The Socialist leader tried to form a minority government based solely on his party's support, but his plans ran up against Podemos' determination to integrate the new government as part of a veritable coalition. In late September he abandoned hopes of receiving a new mandate, and the King of Spain called new elections.

For the fourth time in four years, Spanish citizens will be called back to the ballot box on 10 November to elect their representatives. Although the tides could change in the weeks ahead, the first polls suggest that voters have no intentions of deviating much from the choices they made less than six months ago. If these trends are confirmed, the results will leave the balance of power in the parliamentary hemicycle virtually unchanged from the current situation¹. This might force party leaders to adjust their positions to exit the current impasse.

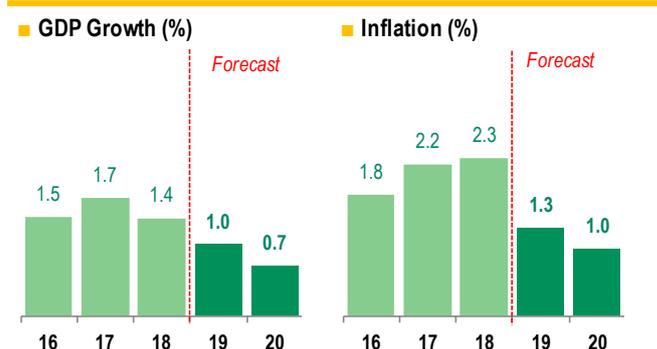
■ Heading towards a slowdown

Spain's image as a part of the European economic panorama has not changed: compared to the other major eurozone economies, the Spanish economy seems to be doing rather well. It boasts stronger growth with a relatively broader and more solid base.

Although economic activity has been resilient so far, there have been clear signs in recent weeks that the economic slowdown – which has already been perceptible at the European level for several quarters – is beginning to take hold and gain momentum on the Iberian Peninsula. In particular, the purchasing managers' index (PMI) for the manufacturing sector has clearly moved into contraction territory since last summer. Growth statistics for 2018 and early 2019 have also been revised rather sharply. Growth certainly seems to be better balanced: private consumption is not nearly as robust as initially announced and foreign trade, though still sluggish, did not slow as sharply as feared. All in all, the 2018 GDP growth figure was revised downwards to 2.4% (-0.2pp). At mid-2019, GDP growth was barely holding above 2% (2.1% y/y), while

¹ According to Politico's Poll of Polls dated 29 September 2019, the People's Party would build on its lead (21% of estimated votes, vs 17% in April), to the detriment of Ciudadanos (12% vs. 16%). The results are expected to remain virtually the same for PSOE (29%), Podemos (13% vs 14%), Vox (9% vs 10%), and the two Catalan nationalist parties ERC (4% vs 3%) and Junts (2%).

1- Growth and inflation



Source: National accounts, BNP Paribas

household consumption was up a little more than 0.8% y/y. In this environment, we revised our 2020 growth estimate down to about 1.5%. The slowdown is beginning to have an impact on the labour market, and employment rose only 0.3% q/q in Q2, the smallest increase since 2014. The unemployment rate has just fallen below 14% for the first time in ten years (13.9% in July) and continues to trend downwards for the moment, albeit at a lesser pace.

■ Public finances in autopilot

Under these circumstances, public finances will remain in autopilot. Like in 2019, the current political situation will make it difficult to prepare and adopt the 2020 fiscal plan, at least through the end of the year. Two key factors are likely to influence the process of reaching a fiscal equilibrium: 1) a slightly sharper-than-expected economic slowdown, which squeezes fiscal revenues in particular, and 2) the drop in sovereign bond yields in the eurozone, which obliges governments to regularly lower the average cost of debt on bond issues (0.37% in Spain for debt issued in H1 2019) and the annual debt servicing charge on public finances (2.4 points of GDP expected last April). Whether the next government is able to reach the 2019 deficit target of 2% of GDP, it will need parliamentary support to maintain the goal of reaching a public finance equilibrium by 2022.

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