

Spain

PSOE is poised to win Nov 10 elections, but majority government remains unlikely

- The current stalemate will persist and may even become more pronounced, in terms of the seat distribution in Congress
- According to the latest polls, the centre-left can achieve no more than 163 deputies (176 required for an absolute majority), while the centre-right peaks at 158
- PSOE leader Pedro Sanchez has so far stuck to his preferences of a PSOE-led minority government
- PSOE, PP may see some merit in a grand coalition agreement that does not necessarily include Cs

The PSOE looks set to win the repeat elections on Nov 10, but it is unlikely to improve upon its previous results or to be able to form a centre-left government coalition that enjoys an absolute majority. As far as the seat distribution in Congress is concerned, the current political stalemate between the left and the right will persist and may even become more pronounced after the upcoming elections, as most recent polls do not indicate that the vote itself will be able to unlock the blockade. This will leave the eventual resolution of the stand-off to politicians, with the initiative once again in the hands of the left.

The relatively short pre-election period was largely overshadowed by current events, as most parties did not make significant adjustments to their political programs, or have the time to launch major electoral campaigns. In our view, the acting PSOE government managed to successfully navigate its way through some turbulent times, which may easily have resulted in a more significant retreat of support, as the party came under attack on both its reaction on the Catalan issue, as well as the economic slowdown and disappointing labour market data. Mutual accusations of hidden coalition intentions across the political spectrum went hand in hand with the rejection of the two separate calls from Citizens for the consideration of a grand PSOE-Cs-PP coalition. While Spain lacks the democratic longevity to boast prior experience in grand coalition agreements, it might well be the case that the current political stalemate can result in such an outcome.

Opinion polls

October brought little change for the two largest parties, as support for the PSOE stabilized, while the PP proved unable to maintain its earlier upward momentum and further narrow the gap. The significant shifts in voting preferences took place among smaller parties, with the rapid decline of Citizens being by far the most notable development. Albert Rivera's party is now polling firmly under 10%, basically halving its support since the start of the year. On the flip side, Vox gained momentum as the elections approached, with some polls now positioning it as the third-largest party in the next parliament, surpassing a stagnating Podemos. Inigo Errejón's Mas Pais, which first entered the polls in end-September, has been unable to convince voters of its relevance or self-stated mission to "end the blockade" and might even deliver more surprises to the downside.

Electoral preferences before the Nov 10 elections, %

Ipsos	Sigma Two	GAD3	Celeste-Tel	Demo-scopia	Socio-metrica	4odb	Average of polls	Weighted average
4-N	4-N	4-N	4-N	4-N	3-N	3-N		



PSOE	26	27.9	27.4	27.6	27.3	25.1	27.3	26.9	27.1
PP	19.4	20.3	21.6	21.9	22.1	20.6	21.2	21	21.1
Vox	14	13.2	14.9	12	12.7	14.3	13.7	13.5	14.1
Podemos	13	13.5	11.2	12.9	12.8	12.9	12.4	12.7	12.1
Citizens	10	8.9	8	9.2	9.2	8.5	8.3	8.9	8.5
Mas Pais	4.7	4	2.8	3.2	3.8	3.9	4.4	3.8	3.5
Others	12.9	12.2	14.1	13.2	12.1	14.7	12.7	13.1	13.5
Sample	2000	1800	7900	1100	1000	1100	2002		

Source: CEEMarketWatch, Electocracia

Seat distribution according to electoral preferences, number of deputies

	Ipsos	Sigma Two	GAD3	Celeste-Tel	Demo-scopia	Socio-metrica	4odb	Lowest	Highest	Current
	4-N	4-N	4-N	4-N	4-N	3-N	3-N			
PSOE	115	122	121	121	115	120	121	115	122	123
PP	90	93	93	99	96	99	91	90	99	66
Vox	45	41	49	36	45	39	46	36	49	24
Podemos	36	37	30	33	38	33	31	30	38	42
Citizens	23	17	15	16	16	16	14	14	23	57
Mas Pais	5	4	3	4	2	4	5	2	5	0
Others	36	36	39	41	38	39	42	36	42	38
C-left	156	163	154	158	155	157	157	154	163	165
C-right	158	151	157	151	157	154	151	151	158	147

Source: CEEMarketWatch, Electocracia

According to the latest polls, a potential centre-left coalition (PSOE-Podemos-MP) can achieve no more than 163 deputies from the required 176 (Sigma Two), while the centre-right (PP, Cs, Vox) peaks at 158 deputies (Ipsos). The projected seat distribution still gives the centre-left more presence in Congress (154-163 seats), compared to the centre-right (151-158 seats). However, the spread has visibly narrowed from the results of the April election, which saw PSOE and Podemos receive a total of 165 deputies, compared to 147 for PP, Cs and Vox.

Post-election scenarios

PSOE-led minority government - 35%

PSOE leader Pedro Sanchez has so far remained true to his preference of a PSOE-led minority government, rather than an outright coalition with Podemos. His idea rests on the assumption that in times of little political consensus, such as these, the leading party should be allowed to propose a way forward for the country, despite not having enough votes to push through a cabinet. We recall that it was this exact same reluctance on behalf of Sanchez to pursue binding coalition agreements that led to the need for repeat elections in the first place.

Compared to April's results, both PSOE and Podemos look more likely to lose, rather than gain MPs, while the votes of newcomers Mas Pais will by all accounts prove insufficient to make a telling difference. This means that an absolute majority centre-left coalition is quite unlikely unless the polls turn out to have significantly underestimated support for left-wing parties. In addition, Sanchez seemed much more likely to receive the support of regional parties before the most recent developments in Catalonia. At present, a cabinet that depends on Catalan JxCat and ERC (or even Basque PNV and Bildu) is too risky, in our view.

Our scenario of a PSOE-led minority government includes both a PSOE-only government, as well as a minority PSOE-Podemos or PSOE-Podemos-Mas Pais government. In light of the commitment to higher social spending,

constitutionally guaranteed annual pension adjustments and shared policies, we believe that such a coalition is likely to lead to a deterioration of the fiscal performance. At the same time, we expect to see at least some moderation in their views on higher taxation, especially in light of the ongoing economic slowdown.

Political stalemate and new elections - 30%

The continuation of the political stalemate remains a highly likely outcome of the Nov 10 elections, in view of the most recent poll results. This time it may well be the centre-right parties that try and force a return to the polls, as protracting PSOE's formal leadership of the country amidst an ongoing economic slowdown and social unrest might be viewed as a way of achieving an eventual majority.

Even if the results of the Nov 10 election fail to facilitate the creation of a new government, we expect that an eventual stalemate might prove to be the last in this political cycle. Regardless, such a development would leave the country in a bad spot to face a further economic slowdown, as much needed structural reforms have already been significantly delayed due to the lack of a fully functional government.

Grand coalition - 20%

Recent events in Catalonia, the economic slowdown and the overall evolution of the political debate in the last few weeks have led us to revise upward our assessment of the probability of a grand coalition agreement. While it still remains among the least likely (but possible) scenarios, we believe that the PSOE and the PP may see some merit in the political cooperation among the three centre-most parties and the consequent marginalization of Podemos and Vox. Such a coalition will have a comfortable majority in both houses, but will not really be able to achieve much in the way of reforms without a predefined program for the government to follow.

Ironically, the facilitation of such a document might actually prove to be easier, if Cs is left out of the picture, as Albert Rivera's party has arguably the most radical view on the leading current socio-political catalyst for the creation of such a coalition - the Catalan crisis. Thus, Cs might find itself outside the government formula that it has championed at a great personal expense in terms of public support.

PP-led minority government - 15%

While the upward momentum of the centre-right in the last few months has been moderated by the ongoing collapse of Citizens in the polls, Vox's recent rise has been nothing short of spectacular, and if confirmed on Sunday would mean a net increase of the total implied support for the centre-right. However, even if centre-right parties outperform expectations, achieving an absolute majority in Congress seems quite unlikely. Contrary to our PSOE-led minority government scenario, we believe that all three major centre-right parties will be a part of a PP-led cabinet.

Such a coalition will have little chance of convincing regional parties for support, except maybe the PNV, which is why it would have to reach some kind of understanding with the PSOE. A PP-led government will try to arrest the ongoing economic slowdown by cutting taxes while adopting a more solid fiscal stance with the aim of achieving a more sizable reduction in debt levels.

Conclusion

Overall, we expect a PSOE win that will result in another lengthy negotiation process, the direction of which will mainly depend on the results of smaller parties. Sanchez is likely to repeat his previous attempt to push for a PSOE-only cabinet, supported by the left, or even for a minority PSOE government. The latter will have to rely on some form of centre-right support, but still remains the more likely outcome than a grand coalition. The political stand-off is likely to proceed even if a government is actually elected, as even like-minded parties have a quite nuanced take on a number of key issues. Regardless, the Spanish economy has already proven to be surprisingly

resilient to political turmoil and we do not see an eventual deadlock pose significant additional downside risks in the short term.