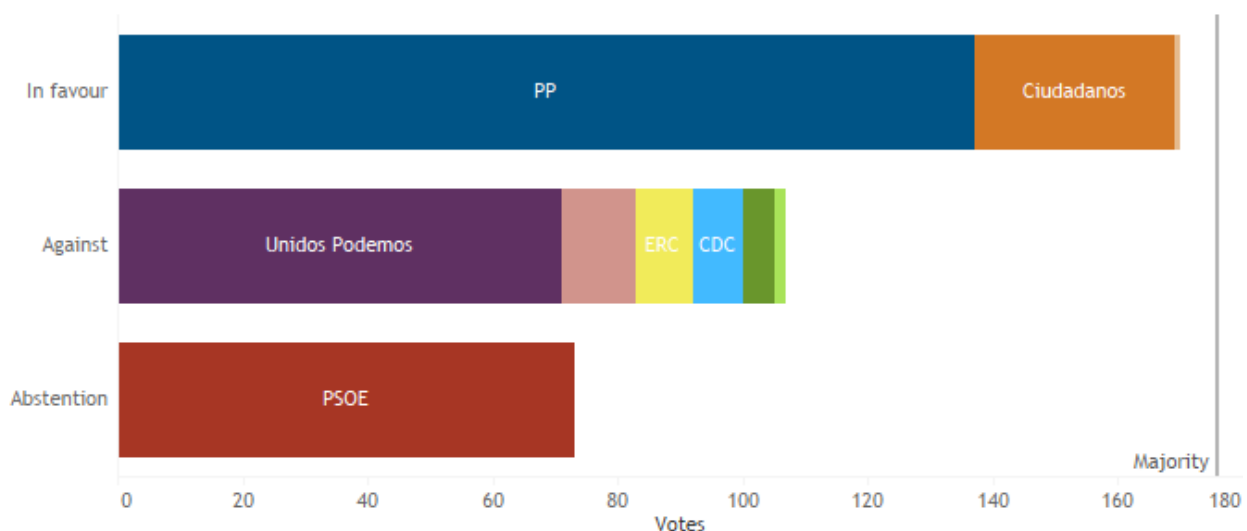


Spain will have a new government, but how much will it be able to do?

Blog post by Partner Roberto Robles, 26 October 2016

After 10 months of political uncertainty and two general elections, Spain will now get a government, but one that will be severely constrained. Incumbent interim centre-right Prime Minister Mariano Rajoy will now face, and win, an investiture vote in the Congress of Deputies at the end of the week. This follows the decision by the centre-left Socialist Party at the weekend, who held the balance of power, to reluctantly abstain in the vote. Faced with the possibility of a third round of elections, the Socialists decided to unilaterally abstain, without any negotiations or policy concessions from the governing People’s Party. While Mariano Rajoy will now govern as a minority - with nearly 50 seats fewer than his party had when it governed as a majority - the prospect of significant policy change remains unlikely.

Expected outcome of Mariano Rajoy investiture vote



Source: GC analysis

With only 137 out of 350 MPs and no permanent coalition partners, in a very fragmented parliament, the People’s Party lacks the mandate to carry through major reforms. However, the deep disagreements between Spain’s other parties means that despite having a majority against it, Rajoy also does not face a united opposition that can approve its own initiatives. Rajoy will still need other parties to approve the budget and make concessions, but the Socialists, whose opinion poll ratings are falling, have little bargaining power if the alternative to passing a budget is an election in which they would perform badly. The latest polls place the Spanish Socialist Workers Party (PSOE) in third place with 16-18% of the vote, down from 23% in the June election.

While the European Commission and the member states will welcome a Spanish interlocutor that is no longer just an interim one, they will also be concerned about the prospects of Spain meeting its EU deficit target of 3.1% of GDP; on current calculations Spain is facing a 3.6% deficit in 2017, and no parliamentary support for spending cuts or tax increases of up to €5bn. Many of the concessions extracted by the centrist Ciudadanos in return for a Yes vote also look far from certain to be implemented. Without a reliable parliamentary majority, it is far from certain that the People's Party (PP) will be able to deliver pledges on a new system of tax credits, the reduction in income taxes, or a new type of employment contract. Spain will get a government and Mariano Rajoy will remain Prime Minister, but his scope of action will be very limited.