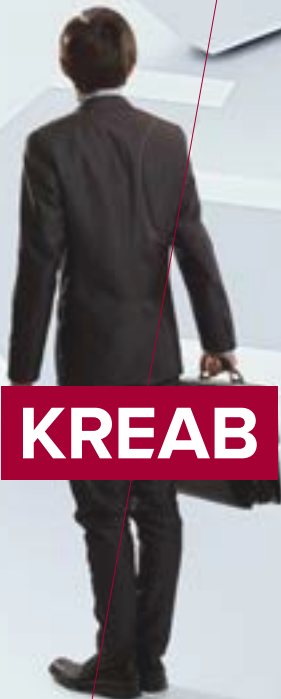


# EXECUTIVE SUMMARY

Through this report, **KREAB RESEARCH UNIT** proposes the main keys for the current national, international and economic situation presented for the upcoming months in the face of the emergence of a new national political context characterized by high uncertainty.



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he changes that have taken place, their unpredictability and the speed with which the political context in Spain has changed have generated an immediate effect within organizations, that have to face a new scenario in which it is more vital than ever to be able to rely on perspectives and certainties.

## **SANCHEZ WILL TRY TO MAKE IT THROUGH TO 2020**

The socialist Pedro Sánchez entered La Moncloa at the beginning of June after presenting a no-confidence motion against Mariano Rajoy due to the first ruling of the Gürtel case, which called into question the “credibility” of the testimony given by the former president in his statement as a witness before the judge, and confirmed the existence of a Popular Party (conservative) slush fund known as “box B”.

It is expected that the support received by Pedro Sánchez from Podemos (left wing and the austerity party) and the nationalist parties in order to carry out the motion without the support of Ciudadanos (liberals) -who were hoping for immediate elections due to their good progress in the polls- will be particularly important in this new stage, in which the President has established four main lines of action: (1) institutional stability and democratic regeneration (2) macroeconomic and budge-

tary stability (3) social, labor and environmental stability (4) territorial stability.

Sánchez intends to finish the legislature (despite the fact that when he defended it he decided to call elections “as soon as possible”), and to call Spanish people to polls in 2020, as planned by Mariano Rajoy’s government.

The best testimony to this is the government formed by Sánchez, which has been well received by public opinion due to its high professional and technical profile, which has been interpreted from the outset as a team well prepared for a long-term strategy.

Sánchez has delegated a large part of the power for this new stage to the consultant Iván Redondo, his new cabinet chief (the Economic Office has been integrated into it), and has left the appointment of some members of his Executive branch to the second level.

It must also be noted that, across the Autonomous Communities, Sánchez has appointed Government Delegates such as Alfonso Gómez de Celis (Andalusia), a political rival of Susana Díaz, as well as other similar profiles in Castilla-La Mancha, the Principality of Asturias and the Community of Valencia.



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## SWOT ANALYSIS OF PEDRO SÁNCHEZ'S GOVERNMENT



### STRENGTHS

- Hope and novelty after almost 7 years of PP Governments.
- Weakness of the other parties which will have to adapt their strategies to an unexpected change of scenario.
- Ciudadanos' difficulties in finding its own space following the changes in PP and PSOE.



### WEAKNESSES

- PP and Ciudadanos parliamentary majority in the Bureau of the Congress of Deputies.
- Absolute majority of the Popular Party in the Senate.
- Some of the new ministers have great public exposure, but no experience in managing public institutions.
- Budget drawn up by the PP and difficulty in approving a new budget for 2019.



### THREATS

- Catalonia and the demands of the nationalist parties that supported the no-confidence motion.
- PP's hard discourse to win back voters who are turning to Ciudadanos.
- Legislative deadlock.
- Pressure from social sectors, with possible recourse to mobilization in the medium term if measures cannot be implemented for budgetary reasons.



### OPPORTUNITIES

- Consolidate itself as a potential government for the 2019 or 2020 general elections.
- Gain ground in the surveys with a view to the regional and municipal elections.
- Stitching up internal PSOE wounds from within the Government.
- Adopt measures that build political consensus and portray itself to the public as a responsible government that cares about the well-being of its citizens after several years of cuts.



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## GOVERNMENT IN ELECTORAL CAMPAIGN

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In this first stage, it is expected that more actions will be taken to convey the sense that things have changed, and to reinforce this in public opinion. There will be symbolic measures, many of them approved by decree, to overcome parliamentary difficulties, especially in social areas (health, dependency), the removal of tolls, or in matters relating to equal opportunities.

It is expected that discussions will take place with regards to the introduction of some type of tax to finance pensions in the future, and it is also likely that there will be a 180° turnaround in environmental policy; with priority being given to renewable energies and efforts being made to try to carry a Climate Change Law forward, which will be very different from the one prepared by the previous Minister from the Popular Party.

It is also likely that Sánchez will want to get involved in the European political context, and move these gesture politics out of Spain to try to create his own voice at a European level that represents a shift in migration or environmental policies.

At the same time, he will seek to bring various consensus policies to Parliament through which it is expected that he will be able to rely on sufficient support to take measures forward. However, it is also expected that he will encounter some difficulties, such as the PP and Ciudadanos majority in the Congressional Bureau, or the PP absolute majority in the Senate.

It is expected that the main obstacles along the way may be related to territorial issues (regional financing will not be addressed, the rapprochement of prisoners from Catalonia and ETA will be on the table) and purely ideological (such as the exhumation of dictator Franco's remains from the Valley of the Fallen).

Finally, after summer, Sánchez will try to present a new General State Budget Bill in order to aim to have his own accounts in 2019, instead of governing with those left behind by the Popular Party.

This budget will certainly include a significant boost of expenditure on social issues: in particular, on health, dependency, and on issues such as scholarships.

Some kind of aid line could be set up to give incentives for rental accommodation, as a measure to curb the bubble created in the large Spanish cities. The debate on basic income may also be reawakened.

## CHANGES IN STRATEGY AND RECOVERY OF THE BIPARTISANSHIP

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The Popular Party, Podemos and Ciudadanos will shift their strategies to adapt to the new situation.

The Popular Party faces an uncertain stage after the first internal struggle for leadership, which for the moment has unpredictable consequences. It is expected that the new team will strongly oppose Sánchez by waving ideologically important issues such as immigration, matters related to Historical Memory, etc.

Podemos will have to decide whether it wishes to collaborate with and support the PSOE government, or to distance itself from the electorate as a left-wing alternative. The decision as to this position will depend to a large extent on whether or not the new government makes the right decisions, although it is likely that Podemos will gradually distance itself, as the regional and municipal elections approach.

Ciudadanos, for their part, will have the difficult task of finding a place for themselves, and of finding a new line of argument to prevent them from losing ground in the polls.

The first demoscopic trends open the way for a recovery of the bipartisanship. If all runs well for PSOE, it could gain ground among the electorate at the expense of the new parties. And a new narrative for PP, with a renewed leadership, could help it recover the ground ceded to Ciudadanos.

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## THE 2019 ELECTIONS WILL SET THE POLITICAL CONTEXT

The European, regional and municipal elections taking place in mid-2019 will have a growing influence on the political environment, especially after the summer, when the teams, strategies and candidates will be made public for the different elections planned.

The Andalusian regional elections are also scheduled to be held in March 2019. However, it seems that the President of the Autonomous Community is not so keen on calling them just two months before the other elections. Taking this into consideration, it is highly possible that this Andalusia will hold its elections in autumn.

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## THE ECONOMY GROWS BUT LESS

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ánchez has a period of government with expected economic growth in store for him; although the data and forecasts suggest that there will be a slight slowdown in the pace at which this economic improvement will take place.

In fact, the forecasts for 2019 predict an increase in GDP of around 2.4%, as a result of a slowdown forecast for the last quarter of 2018.

This slowdown is predicted on the basis of (1) a weakening of private consumption and investment and (2) a one-tenth reduction in the external sector's contribution due to a slight acceleration in imports and a slowdown in exports.

Another economic issue that will pose a challenge in the future results from demographic pressure itself. Birth figures in Spain have dropped to the lowest levels since the 1990s due to an aging population. This will undoubtedly have consequences for consumption, pensions, and productivity.

Particular attention will have to be paid to the evolution of rental housing prices in large cities. In 2017, prices increased on average by around 18.4%, meaning that the national average rental price was 9.7 euros per square meter per month.

The overlap of this situation with the expiry of contracts with a maximum term of 3 years as a result of the latest reform of the Urban Rental Law is causing many families and young people to move away from the city center, as they are unable to renew their contracts at the significantly increased rates.

It is predicted that action will be taken both at the national and –with a view to the forthcoming elections– at the local level, particularly in Madrid.

Lastly, another economic challenge to be faced in the upcoming months will be maintaining the positive trends in the national tourism sector, in terms of visitor figures, and generating an offer that will enable tourist expenditure to increase throughout Spain.

So far in 2018, Spain has already received just over 20 million tourists; a 2.3% increase when compared to the same period last year.

## EUROPEAN UNION: ITALY AT THE CENTER OF THE EU'S CONCERNS

Italy will remain at the center of the European Union's concerns after the agreement reached between the 5 Star Movement and the Northern League. The risk premium is expected to continue to increase in the coming months as a result of the situation being experienced in the country.

The fear of populist contagion in other Eurozone countries is a concern for its partners and, in particular, for Merkel and Macron, who already have their sights set on re-launching a moderate government coalition next year. It seems clear that we will see more of Macron's influence on Merkel in the near future.

All this in the run-up to next year's European elections, which will lead to a legislative turmoil in order to adopt as many measures as possible before the current composition of the European institutions is dissolved.

Across the Atlantic, the U.S. and Donald Trump's White House management will continue to make headlines, especially on commercial and immigration issues.

Also, one of the main international issues from 2018 is the move made by the U.S. Embassy to Jerusalem, with the capital of the holy city thus being recognized and legitimacy on the alert to the historic demand of the Israeli leaders. This has heightened tensions in the region, with Iran's front line being alert following the White House's rejection of the Obama Administration's Nuclear Pact.



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