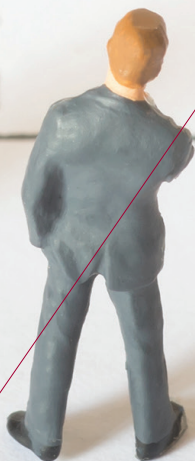


# EXECUTIVE SUMMARY

**KREAB RESEARCH UNIT** presents its latest quarterly report on the current political environment. The analysis aims to anticipate some of the key developments which could take place in the last few months of 2018.

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## ECONOMIC AND POLITICAL TURMOIL AT THE INTERNATIONAL LEVEL

The upcoming months will bear witness to the efforts of Europe's far-right political forces to bolster their activity and stage a unified front, their sights set on a clear goal—the European Parliament (EP) elections coming up in May 2019.

Demonstrations will likely be on the rise in Italy, Germany and other countries, in response to the management of migration policies by both national governments and the EU. We also foresee a sharp increase in the level of electoral support for far-right groups in the EP, as well as a highly complex legislature starting in 2019.

On the Brexit front, British Prime Minister Theresa May could opt to call for elections rather than settling for a poor deal merely for the sake of staying in the single market.

Although a “no deal” scenario that would force the UK to sever all ties with Brussels hardly seems likely, some countries are nonetheless bracing for a hard Brexit.

Meanwhile, across the pond, Democrats stand few chances to regain control of the US Senate following the election of November 6. Moreover, the divide among Republican ranks is not likely to deepen far enough to make the impeachment and ousting of President Trump viable before 2020.

## SPAIN'S ECONOMIC SLOWDOWN HAS BEEN CONFIRMED

The present state of Spain's balance of trade continues to bog down its economy. The economic stagnation of Italy and the UK, in conjunction with Turkey's and Brazil's respective financial and debt crises, is only adding to the climate of uncertainty currently looming over the global economy. The latter also remains in a state of instability as a result of the US' economic performance, shaken by the decisions of President Trump and the Federal Reserve.

For 2018, Spain's balance of trade is already expected to have a negative impact on its GDP. The first consequence of this has been an economic cooldown in terms of growth which has, in turn, curbed the Government's expectations for it by 0.1% for the closing financial year.

Nevertheless, the Executive is counting on national demand to stay strong, and is also planning on boosting it by rising public spending by approximately 3 billion Euro, as reflected on the budgetary plan submitted to Brussels in mid-October.

In general, the Government's macroeconomic forecast for the closing year seems plausible. Although Brussels may take some issue with some of the structural adjustments proposed in the budgetary draft, everything seems to suggest the text will be approved and secure the Commission's green light in mid-November without any major hurdles.



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## THE NEXT THREE MONTHS WILL HOLD THE KEY TO THE FUTURE OF SÁNCHEZ'S GOVERNMENT

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In Spain, the Government of Pedro Sánchez must now face the crucial last few months of 2018 that will determine whether it will remain in office until 2020 or call for early elections. Without any doubt, obtaining parliamentary approval of its draft for the 2019 state budget will weigh the most in the Government's decision.

The Executive has already secured the support of the Unidos Podemos and PNV (Basque Nationalist Party) parliamentary groups. However, the Catalan nationalist parties are proving harder to court. Consequently, the following months will probably see the Spanish prime minister and his cabinet working to build bridges and extend a few gestures to Catalonia.

Unidos Podemos will play a central role in pushing the budgetary draft through the Spanish Parliament by negotiating with the nationalist parties. For its part, the Government may choose to take its time and play the Parliament's procedural calendar to its advantage, conveniently waiting out the pending judiciary resolution that will determine the fate of a cohort of prosecuted nationalist politicians. Should the resolution be unfavorable to the nationalists, it would place them in a weak negotiating position.

If Prime Minister Sánchez failed to procure parliamentary approval of his budgetary draft, he could still opt to keep the state budget for 2019 that the People's Party (PP) had managed to pass while it was still in office. This would also allow him to "wait and see" the outcome of the upcoming regional and local elections, rather than rushing to call an early general one.

All in all, our forecast is that the draft for the 2019 state budget stands a higher chance of passing than of stalling.

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## DECREES WILL OUTNUMBER LAWS

We do not foresee any great regulatory shifts for the remainder of 2018. However, a number of legislative initiatives encompassed in the budgetary plan agreed upon by the Socialist government and Podemos—and submitted to Brussels in October—will be set into motion.

Until it garners a much-needed parliamentary support from other political groups in the Spanish Congress, the Government will continue to resort to Royal Decree-Laws in order to keep the legislative ball rolling.

A few government bills will be introduced both to appease Unidos Podemos in their demands to amend regulations, and in an effort

to facilitate a certain level of consensus among the different political forces.

However, the lengthy procedure required to pass a law proposed by the Government—which requires the bill to navigate the Council of Ministers twice, a number of mandatory reports to be drafted, and the proposed text to undergo the obligated parliamentary processing—could well end up tabling many of these legislative initiatives, unless these are deemed urgent enough to activate a special legislative procedure.

In the next few months, the Government will most likely ignite some new debates on topics of a high ideological charge, such as the regulation of euthanasia or the assets of the Catholic Church. Its goal will be to keep on the public agenda a number of issues which are certain to mobilize their voter base.

In addition, Sánchez will continue to consolidate his political presence abroad by keeping a busy international schedule.

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## RIISING TENSIONS IN CATALONIA AND THE ANDALUSIAN ELECTION TO SHAPE THE NATIONAL POLITICAL LANDSCAPE

At the regional level, much attention will be drawn to Catalonia in the next three months. Not only is tension on the streets expected to keep climbing, but the cracks between nationalist parties are also likely to deepen. This widening chasm comes mostly as a result of the aforementioned negotiations regarding the budgetary draft for 2019, which have already shed some light on the internal division within nationalist ranks.

The lack of parliamentary activity in the Catalan assembly, the weakness of the current regional government and the impending trial against the imprisoned Catalan politicians could rapidly cause the situation to deteriorate, serving the recipe for yet another early election in Catalonia. Spain's Public Prosecutor's Office has already announced that it will not back down from its initial sentence request.

Another region that will play a prominent role in the following months will be Andalusia, where regional elections will be held on December 2. Our forecast is that the PSOE (Spanish Socialist Party) will remain the leading political force, although its electoral performance will decline.

The regional alliance between the PSOE and Ciudadanos parties might be renewed, but there is also a very real possibility that Ciudadanos will become the second force in the region. A situation where national politics interfere in Andalusia's elections, causing the region to reach an unprecedented institutional stalemate, is another plausible scenario.

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## ELECTORAL PROSPECTS: SPAIN STANDS ITS GROUNDS

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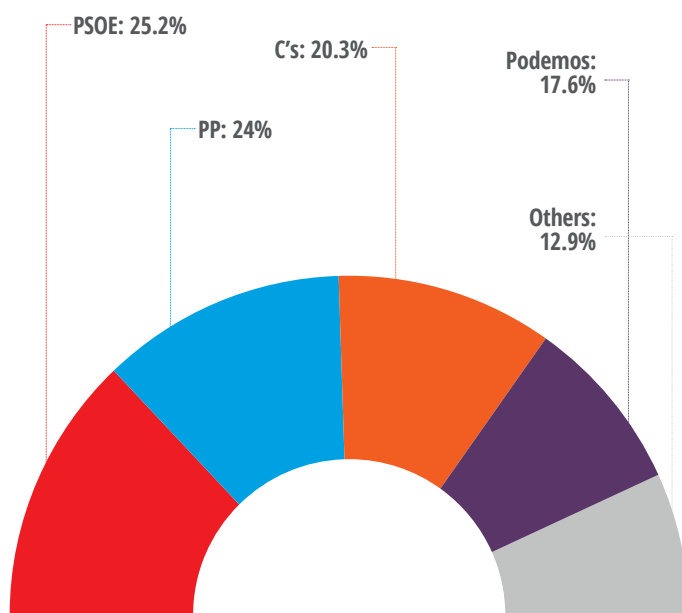
regards the electoral landscape. The Kreab Barometer—whose estimations are based on an average of the results shown by a selection of polls—shows a 25.5% of electoral support for the PSOE, should a hypothetical election take place.

The PP would rank second under its new leader, Pablo Casado. It would boast a 24% of electoral support, a mere 1.2% below the PSOE. Ciudadanos would remain the third political force with 20.3%, followed by Unidos Podemos with 17.6%, which marks yet another drop in its electoral support levels.

In other words, the PSOE would see an increase of its voter base at the expense of Podemos', and Ciudadanos would get to keep its third place owing to the PP's disenchanted voters flocking to its ranks. This landscape would remain an obstacle to political consensus, as neither the right nor the left-wing block would gather over 50% of votes.

During the next few months, another political force will come under the spotlight: VOX. The party event celebrated in Madrid at the beginning of October had a turnout of 9,000 people. Its poll performance has also improved, which has drawn media attention both to the party itself and its leader, Santiago Abascal.

### KREAB BAROMETER



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