

Macro Rapid Response

Spain's snap election should not weigh on the short-term economic and fiscal outlook

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Prime Minister Sánchez has called a snap election for 29 November after Congress rejected two housing decrees, in what he considered his last chance to rally the PSOE appeal towards the public opinion. However, polls point to a change of government, and a PP-Vox coalition seems to be the most likely scenario. A new cabinet may not be in place before early 2027. The increased political uncertainty does not substantially alter our growth scenario for 2026-27, but a change of government could lead to more restrictive migration and labour policies, with an impact on growth prospects over the longer term. The fiscal implications do not seem to be a cause for concern at the moment: the budget rollover delivers consolidation by default, which we expect to slow from the second half of 2027, but without a derailment.

Prime Minister Pedro Sánchez has called a general election for 29 November, in what could be his last chance to rally the left behind his candidacy. The trigger was Friday's defeat in Congress of two housing decrees, voted down by PP, Vox and Junts. However, the policy-making was already peril, with no budget approved since 2023. According to the PM, the Housing policy offered the PSOE its most favourable ground after a September dominated by the Ceuta migration crisis and by judicial cases close to the party. Saturday's housing protest in Madrid drew over 70,000 people. PM Sánchez already dissolved the congress earlier than expected in 2019 and 2023, while staying in office both times. With the natural term expiring in July 2027, waiting could have offered no better moment. **This election will kick-in the broader European electoral cycle, which will follow in France, Italy, Greece, and Poland in 2027.**

On current polls power passes to the right, and a PP-Vox coalition after the vote seems currently the most likely scenario. The September poll average puts Partido Popular (PP) at 32.5%, PSOE at 26.2% and Vox at 17.6%, with PP and Vox projected at 200-210 seats against the 176 needed. The latest SocioMétrica survey (1-3 October) gives them 143 and 62 seats, with the PSOE up less than one point after the housing protests. **The open question is the decision making within the right-wing coalition.** PP leader Feijóo has said he would negotiate a coalition if the PP lacks a majority of its own, and Vox has entered four regional governments this year: the two parties already governs few regional assemblies across Spain. A PP minority with Vox's external support is the less stable alternative, which cannot be ruled out at this stage. **Coalition talks can last up to four months, so a cabinet may not be in place before early 2027.** The risk is a polling miss as occurred in July 2023, when a projected majority ended six seats short, although the cushion is now wider (about 30 seats). **Regional and pro-independence parties, hard to capture in national polls, could be important, but less pivotal than in the 2023 coalition building.** Barring any surprises, a left-led majority looks unlikely, with Junts estranged and the national parties left of the PSOE projected at 8 seats (31 in 2023).

The election leaves our near-term scenario unchanged. We forecast GDP growth of 2.5% in 2026 and 1.9% in 2027. After 0.7% q/q in the second quarter (2.7% y/y), we expect 0.4% in the third and 0.3% in the fourth, as the energy shock erodes real incomes. **Inflation rose to 5% y/y in September** (on the HICP measure, from 4.6% in August), led by fuels, while core held at 3.2% y/y and the 2026 wage agreements closed at 2.9%. The squeeze is starting to affect consumption, with retail sales falling by -0.4% year on year in August. However, households can mitigate the impact thanks to a savings rate of 11.5%.

We expect a potential PP-Vox government to tighten immigration and labour policy, therefore potentially slowing economic dynamism. Immigration accounted for close to half of GDP growth in 2022-25 (1.7pp of a 3.7% annual average) and for over two thirds of job creation, with little help from productivity. A lower inflow would thus cut GDP growth and slow the employment creation. Additionally, a lot of the employment have been sustained by the stabilisation of temporary jobs contract, a measure the right-wing coalition could eventually discontinue. The construction sector is a case in point, with one in four workers being foreign; the housing issue is, in fact, at the heart of the current political debate (the PP has pledged to build one million new homes).

The fiscal read-across is relatively benign in the near term. No 2027 budget will be tabled before the vote, so the 2023 accounts roll over into a fourth year. The rollover freezes discretionary appropriations while revenue grows in line with nominal GDP, which delivers consolidation by default, although indexed pensions and interest fall outside the freeze. The energy shield published on 30 September still needs validation within 30 days, now by the Diputación Permanente, but we expect it to be approved before the congress dissolution. **A new government would present its first budget and the new Medium-Term Fiscal-Structural Plan in spring 2027 at the earliest**, which will probably include the income tax cuts the PP has promised. Even if slower consolidation a story for the second half of 2027, we do not expect a fiscal derailment. The improvement should slow or pause, with deficit projections of 2.3% of GDP in 2027 looking more uncertain now, depending on the size of the tax package. Debt should keep falling by 1.5pp a year, from 99.3% of GDP in 2026. On the positive side, a clear majority could remove the fragmentation and political impasse Spain suffered over the last two years.

Appendix

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