An Artificially Polarised Election

General elections in Spain

An analysis of the economic programmes presented by the central parties in the Spanish General Election, the PSOE and the PP, demonstrates that their perspectives of the current situation are not entirely irreconcilable. Furthermore, foreign institutional investors seem not to be overly concerned about the outcome. Regardless of whether the PSOE remains in power or the PP takes control, they believe that Spain will remain a “very attractive” country for investment. Data shows that investors have had a mostly positive experience with Pedro Sánchez in power, and they don’t think this would change much even if the conservative PP were to come to power. In fact, a significant portion of the respondents say they would prefer a government led by Alberto Núñez Feijóo.

Intense polarisation in Spanish politics during the past four years has had a deep impact on the Spanish electoral campaign. Amplified by the media, this tension has spread to different areas of society, creating the impression of two antagonistic blocs: Spanish Socialist Workers’ Party (PSOE)-Sumar and People’s Party (PP)-Vox.

One reason for the current centrality in major economic policy is the imposition of fiscal compliance rules by Brussels

The mix of far-left and far-right parties within these two blocs only increases the sense of socio-political divergence. However, a detailed analysis of the economic programmes presented by the central parties, the PSOE and the PP, demonstrates that their perspectives of current situation are not entirely irreconcilable. Despite this, more significant differences between the parties can be observed in other areas, such as social or territorial issues.

Depending on the outcome of the election, there is a risk that either of the two major parties may be forced to implement very different economic measures due to the political influence of their partners. However, it is unlikely that either of the parties would hand over significant ministries, such as finance, energy or industry, to Sumar (far left) or Vox (far right).

One reason for the current centrality in major economic policy is the imposition of fiscal compliance rules by Brussels. The major parties do not often acknowledge the European Commission’s influence on decision-making about the national economy, but it is evident that the transfer of sovereignty to Brussels is becoming increasingly significant.

This is especially true now, as Spain is set to receive the first instalment of a €140 billion investment from the European Recovery Fund, which runs until 2026.

This groundbreaking level of investment, which has the potential to transform green and digital industries, comes with conditions agreed upon with the European Commission regarding compliance with deficit and public debt figures and will heavily influence the economic actions of the government that emerges after the elections.

200

Foreign institutional investors were surveyed about their perception of Spain as an attractive investment destination

They seem not to be overly concerned about the outcome of the Spanish general election on 23 July.

Structural Problems

Whether the conservatives (Alberto Núñez Feijóo, PP) or the socialists (Pedro Sánchez, PSOE) come to power in La Moncloa, the government will have to address three structural problems that Spain has faced in the past 20 years: high public debt since 2010, low productivity growth since 2000, and wage precariousness and inequality since 2008.

Focusing first on the PP, which has won the regional elections, it can be said that Feijóo's programme breaks away from past neoliberal models that no longer align with the values of most of Spanish society or much of the ideology of the European Commission, especially after the significant public interventions during the pandemic and the energy crisis caused by Russia's invasion of Ukraine.

Perhaps for this reason, a group of 200 foreign institutional investors surveyed by FTI Consulting between 17 July and 19 July believe that regardless of the outcome of the 23 July election, their perception of Spain as a "very attractive" investment destination will remain unchanged. The respondents state that the current government has favoured businesses, but the arrival of the PP to La Moncloa would be good for "improving certainty and security" for investors.

Taxes

The PP's proposed measures are aligned with a Europeanist and global right that talks unapologetically about the welfare state, universal and high-quality public health, education, and pensions. On these issues, most of the PP's proposals overlap with those of the PSOE, the driving force behind the majority of these policies in Spain.

Regarding fiscal policy, Feijóo promises not to raise taxes but barely mentions lowering them. The PP proposes to eliminate the wealth tax but would maintain the inheritance tax, as approved by former PP President Mariano Rajoy in 2012, while giving the Autonomous Communities the freedom to set their own inheritance tax rates.

One of the PP's most striking measures is the announcement to lower Personal Income Tax ("IRPF") for those with incomes below €40,000. The party will maintain the extraordinary taxes on banks and energy companies, even though it voted against them in Congress, but will "temporarily" reduce the VAT on meat, fish and preserves.

The party also plans to improve "the fiscal regime for new foreign residents, offering attractive and competitive tax incentives globally for international investors who create jobs through a revision of the fiscal framework and deductions for investors and start-ups".

The PSOE insists on a taxation system that redistributes wealth, sustains public services, and drives companies to implement green and digital transformation. The party also states that it will "evaluate" taxes on the rich, energy companies and banks and will follow the principle of "polluter pays". Regarding the

IRPF, the PSOE advocates for improving incentives for children and dependency care.

Public Deficit

Neither of the two parties includes in their programmes significant measures to reduce the public deficit, even though it is a central issue in the Spanish economy. The PP merely states that it will reduce financial imbalances, while the PSOE pledges to fight against fraud and the informal economy.

The new government will have to address three structural problems that Spain has faced in the past 20 years: high public debt since 2010, low productivity growth since 2000, and wage precariousness and inequality since 2008

The PP proposes to make changes to the distribution system for NextGenerationEU funds. The current system, which is based on subsidies, has proven to be complex and bureaucratic. The party suggests shifting to a system of tax deductions made through corporate taxes, similar to a policy approved by President Biden in the United States which has proven more effective. The party also wants to change housing law, modifying land law to make regulations less bureaucratic.

One area where the PP clearly differs from the PSOE is in its proposal to introduce the so-called “Austrian backpack”. This refers to an individual account for each worker funded by contributions from the employer, which can be supplementary to or deducted from gross salary or even paid by the employee. In place of severance pay, workers who are made redundant take the money from their backpack with them, which they can either spend or save for the future to enhance their pension. In other words, the backpack is an account where the company deposits, on behalf of each employee, a portion of the employee’s severance pay in advance. The money is invested and managed by a private financial entity.

Pensions

Another thorny issue is the future of pensions. The PSOE is more assertive, stating that it wants to “safeguard the purchasing power of pensions through a constitutional change … indexed to the CPI.” The party also commits to allocating more than €20 billion to the Social Security Reserve Fund by 2027. On the birth or adoption of a child, the party intends to contribute the equivalent of a year’s payment towards the pensions of each of the child’s parents.

The PP’s proposals are brief — it intends to “reform the pension system to ensure its sustainability” and agree on its re-evaluation “within the framework of the Toledo Pact”, while advocating for greater transparency so that workers can easily access an estimate of their future pension.

These are the proposals presented to the electorate. There is no doubt that the state of the economy, still marked by the uncertainty of a conflict in Ukraine, rising interest rates and uncontrolled inflation in Europe, will force the next government to adapt to circumstances and adhere to Brussels’ fiscal rules.

Foreign Investors Are Not Concerned About the Election

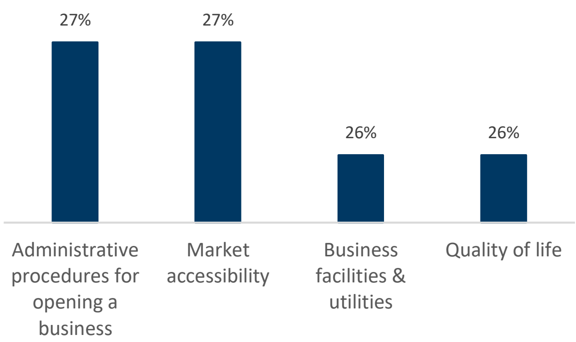
Foreign institutional investors seem not to be overly concerned about the outcome of the Spanish general election on 23 July. Regardless of whether the PSOE remains in power or the PP takes control, the 200 foreign institutional investors FTI Consulting surveyed between 17 July and 19 July believe that Spain will remain a "very attractive" country for investment. They rank it just behind the United Kingdom as the country that most promotes foreign investment.

> *Foreign investors state that they've had a mostly positive experience with Pedro Sánchez in power, and they don't think this would change much even if the conservative PP were to come to power. In fact, a significant portion of the respondents say they would prefer a government led by Alberto Núñez Feijoo*

Investors' electoral neutrality is consistent with an analysis of both major political parties' economic programs: they agree on major issues, and they know that Brussels will set the pace by controlling the figures for public debt and deficit in the coming years. Although the parties' policies on fiscal matters differ, the economy's performance will likely determine how much announced tax cuts or promised social aids materialise.

FTI Consulting's survey provides a global perspective, as it includes both foreign investors residing in Spain and those based outside the country. Their responses indicate that they've had a mostly positive experience with Pedro Sánchez in power, and they don't think this would change much even if the conservative PP were to come to power. In fact, a significant portion of the respondents say they would prefer a government led by Alberto Núñez Feijóo. The respondents' opinions are significant because, collectively, these investors manage assets worth over €10 billion.

Figure 1 - Areas in which the elected government should concentrate on to attract foreign investment



Interest in the Political Battle

On the night of 23 July, the greatest interest in the election will come from inside Spain, but many eyes from outside the country will also be on the vote count. Nearly half (49%) of respondents claim to be "very informed" about the Spanish electoral process, regardless of where they reside. In addition to staying informed, major institutional players have an "interest" in the political battle, aligning with recent statements made by the main European countries' leaders.

Among respondents, 87% agree that the current Spanish government is pro-business: 42% completely agree and 45% slightly agree. In this regard, the coalition between the PSOE and Unidas Podemos doesn't seem to have scared off major investors, perhaps because its influence on economic matters has been limited. Thus, the government is considered "pro-business".

Points in Favour of the PP and the PSOE

The majority (30%) of respondents think that the Sánchez government is the best choice for promoting foreign investment. This opinion is common among residents of Spain and those living abroad. Despite this belief, 49% of respondents state that the best path to "improve certainty and security" for foreign investors is a solo government led by the PP. According to polls, however, it is unlikely that Feijóo could reach La

Moncloa without a coalition — or a legislative pact — with Vox.

Investors' To-Do List for the Next Government

When asked what the elected government should do to attract foreign investment, respondents' opinions differ based on where they live. Those residing in Spain want increased support for investment projects, closer proximity to resources and customers, more business facilitation, and optimisation of public services. In contrast, respondents from outside Spain want improvements in operating costs for businesses and tax incentives, greater market accessibility, reduced inflation, and an increase in quality of life. Both parties seek streamlined administrative procedures for opening and running a company.

RESEARCH METHODOLOGY

Research was conducted online with n=200 institutional investors based in Europe from 17th to 19th July 2023. The total sum assets under management amount to over EUR 10 billion.
Due to the convention of rounding, not all sums add up to 100% exactly. For more information on the research methodology: dan.healy@fticonsulting.com

Dan Healy and Hollie Heatherington from FTI Consulting in London contributed to this note with the research and data for the survey to 200 foreign institutional investors.

JUAN RIVERA
Senior Managing Director
+34915243859
juan.rivera@fticonsulting.com

CARLOS OCHOA
Managing Director
+34915244856
carlos.ochoa@fticonsulting.com