



# Flash

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## Irish election result; uncertainty increases but no major shift

Outgoing coalition suffers heavy losses: no clear picture of next government

Austerity protest vote clearly a factor but centrist parties still a clear majority

Recovery of Fianna Fáil and increased role of independents rather than a radical change

New Government may take some weeks to form

Uncertainty premium may affect Irish bonds in short term, but still positive Irish bonds longer term

No significant change in economic policy likely meaning strong economic fundamentals still key

As the table indicates (see below), the 2016 Irish general election has produced an indecisive outcome. The outgoing coalition government of Fine Gael (centre right) and Labour (centre left) was expected to lose its overall majority but the scale of losses was much heavier than expected.

### Time to form government

While in theory it might be possible to cobble together a coalition of Fine Gael, Labour and some combination of smaller groupings and multiple independents, **this looks difficult in practice because of the diverse nature of the those groupings and independents.** The new Dáil (parliament) will meet on March 10th and on present indications, a new government will not be formed at that time. Instead, there is a prospect of protracted discussions taking several weeks before some new arrangement is found. In the interim, the current government will remain in office on a caretaker basis.

### Marriage Fianna Fail & Fine Gael?

At present, the option most likely to provide stability would be **some coalition or other arrangement between Fine Gael and Fianna Fáil (centre right).** There is no significant ideological gap or major economic policy difference between the two parties. However, there is a strong historical difference that is still deeply held as the two parties emerged from the opposing sides of the Irish civil war which followed independence in 1922 and ended the following year. In the interim one or other of the parties has always been the main party of Government and the other has led the opposition.

**A strong desire to avoid another election in the short term makes it likely that some arrangement will be found to produce at least a temporary Government.** In this context, during an economic crisis in the 1980's, the then Fine Gael opposition agreed to support economic reforms introduced by a minority Fianna Fáil government (under an approach known as 'the Tallaght strategy'). This arrangement lasted

nearly two years. In many respects such an outcome could be regarded as a significant positive for Irish assets.

Importantly, while the outgoing Government parties suffered heavy losses, **these were not the result of the emergence of any radical party** as, for example, happened in Greece. Indeed, Sinn Féin, far and away the most radical of the larger parties made fewer gains than expected. As a result, **there is little prospect of any marked thrust in the stance of Irish economic policy in the aftermath of this election.** While this election has produced an indecisive outcome, it isn't one that signals the demise of majority support for centrist parties.

### Protest against austerity

These election results reflect a clear protest vote against the severe austerity programme of 2009-2014. **They also emphasize that a strong 'macro' Irish recovery has yet to be felt across the majority of households.** The outgoing government had already begun to ease the tax burden and increase spending –while still respecting EU fiscal rules-and this is likely to continue in coming years. However, **there appears little prospect of any dramatic or threatening shift in the fiscal stance.**

Current market conditions mean any element of uncertainty **is likely to command some risk premium and this may lead to some further near term volatility and perhaps some element of underperformance in Irish financial assets.**

Concerns in relation to Irish political considerations could increase in the run-up to the UK referendum on EU membership if an exit vote appears likely. Irish concerns would also be amplified in the event of a marked weakening in the global economy that threatened a sharp slowdown in Irish economic growth.

### Still thumbs up for Irish bonds

However, **the strong likelihood that the current thrust of Irish economic policy will be unaffected by the election result coupled with continuing robust growth in activity and employment should continue to underpin Irish government bonds and other asset classes on a relative basis.**

Austin Hughes, KBC Dublin

## Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	<b>Brussels</b>	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Joke Mertens	+32 2 417 30 59	Institutional Desk	+32 2 417 46 25
Mathias van der Jeugt	+32 2 417 51 94	France	+32 2 417 32 65
<b>Dublin Research</b>		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)			
Jan Cermak	+420 2 6135 3578	<b>Prague</b>	+420 2 6135 3535
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
Bratislava Research (CSOB)			
Marek Gabris	+421 2 5966 8809	<b>Bratislava</b>	+421 2 5966 8820
Budapest Research			
David Nemeth	+36 1 328 9989	<b>Budapest</b>	+36 1 328 99 85

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