



Investec Ireland Economic Comment

Economics

This week's Irish elections are likely to show a small swing to the centre ground

Expected gains could be a double-edged sword for the minority government, however.

On Friday 24 May Ireland will hold local and European elections. All 949 local authority seats will be up for grabs, while voters will choose the 13 MEPs that will represent the country in the European Parliament. One quirk for the latter is that two of the MEPs will not take their seats until Brexit has taken legal effect.

Opinion polls suggest that Fine Gael, which heads a minority administration in conjunction with independent TDs (Members of Dáil Éireann, or the lower house of parliament) and the acquiescence of opposition party Fianna Fáil through a confidence-and-supply arrangement, is set to make good gains across the country's local authorities. It achieved 24% of the vote in the last local elections in 2014, securing 235 seats (25% of the total). The latest polls have it on 28-29%, suggesting that it could gain up to 50 seats. Constituency betting odds from the country's largest bookmaker, Paddy Power, indicate that it could win five European Parliament seats, representing a gain of one from the last contest in 2014. So far, so good for Fine Gael. But the outcome of the European elections could have national ramifications. Under 'dual mandate' rules, TDs elected to the European Parliament have to give up their seat in the Dáil. The aforementioned betting odds suggest that one Fine Gael TD (Frances Fitzgerald, Dublin Mid-West) and one Fianna Fáil TD (Billy Kelleher, Cork North Central) could win European Parliament seats. Assuming both candidates are elected to the European Parliament, were the by-elections for their Dáil seats to be won by opposition politicians this would make the arithmetic in the Dáil trickier for the government.

Opinion polls suggest gains for Fine Gael and the Greens

	Actual		Latest (May 2019) Polling		
	2014 Local Election	2016 General Election	Sunday Business Post / Red C	Sunday Times / B&A	Irish Times / IPSOS-MRBI
Fine Gael	24%	26%	28%	28%	29%
Fianna Fail	26%	24%	24%	28%	26%
Labour	7%	7%	5%	4%	7%
Sinn Féin	15%	14%	13%	19%	16%
Green	2%	3%	7%	5%	4%
Others	26%	26%	23%	16%	18%

Sources: Wikipedia, Sunday Times, Sunday Business Post, Irish Times

Local Elections: Greens and Fine Gael set to gain

The last local elections in 2014 saw voters turn away from the traditional 'big three' centrist parties of government, with Fine Gael and Labour dropping a combined 186 seats and Fianna Fáil picking up only 49 seats. Sinn Féin made strong in-roads, gaining 105 seats, with other notable gains being made by Independents, Greens and small far-left parties.

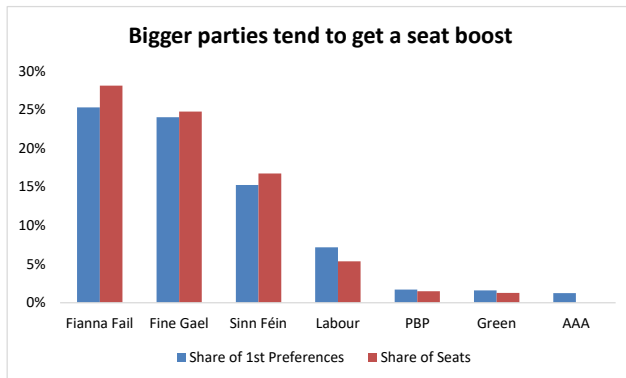
Three polls taken this month suggest that Fine Gael is likely to poll 28-29% on Friday, comfortably ahead of its 24% rating in 2014. The last time round the party secured 3% more seats than its proportional share of the vote (big parties tend to get a 'seat bonus', notwithstanding Ireland's PR-STV voting system), so a four-to-five point rise in its vote share should translate into a higher proportion of council seats. Another important consideration is that Fine Gael appears to be 'managing' its candidate strategy better than it did in 2014, with [the latest count](#) by

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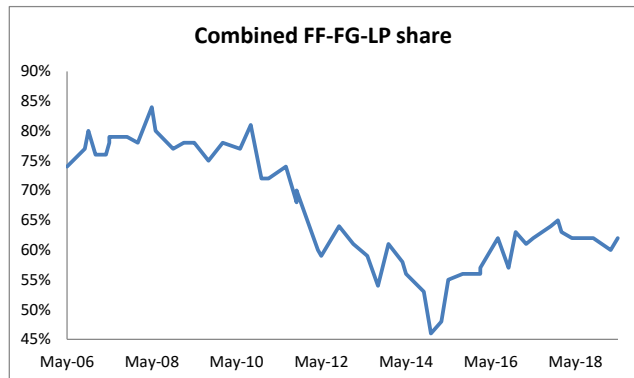
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Maynooth University's Dr. Adrian Kavanagh suggesting that Fine Gael is running 406 candidates this time versus 468 in 2014.



Source: DoECLG, 2014 local election results



Source: Irish Times / IPSOS-MRBI

The main opposition party, Fianna Fáil, looks like it will consolidate the gains made in the last local election, with the average of the three latest polls suggesting an in-line vote share to 2014.

Opinion polls suggest that the moderately centre-left Labour Party will drop seats this week, although a marked drop in the number of candidates (per Dr. Kavanagh's [count](#), it is running 111 candidates versus 190 in 2014) means that care should be taken in interpreting national polls. One headwind for Labour is that the Social Democrats, a new party that draws much of its support from traditional Labour voters, is running 58 candidates.

Sinn Féin is running [230 candidates](#) (up from 196 in 2014). This candidate strategy may backfire if its vote share comes in towards the low end of the 13-19% range the party has been polling at. Like Labour, a complication for Sinn Féin is a new party, Aontú, founded by a former Sinn Féin TD, which is running 53 candidates.

The Green Party is poised to make good gains, polling 4-7% against the 1.6% secured in 2014. It is also [running 82 candidates](#) (nearly double the 47 who ran for the party in 2014) so it is well-placed to capitalise on this surge in support.

Polling data suggest that independents and minor parties are likely to record material seat losses on Friday.

So, assuming people are being honest with the pollsters, it seems that Fine Gael and the Greens will have the most to celebrate after the local authority election results are counted.

However, it is worth noting that local government in Ireland has very limited autonomy, with most functions delegated to the executive. Total expenditure by local authorities is only a tenth of what central government spends annually. Moreover, in recent years a number of functions have been either transferred to central government (e.g. water services) or outsourced to the private sector (e.g. refuse collection). Planning decisions are no longer in councillors' remit, although they can decide multi-year development plans that set out high level zoning policies. To this end, the outcome of the South Dublin County Council election may be of particular interest to Hibernia REIT, given that it holds 143.7 acres of development land at Newlands Cross, much of which is currently zoned for agricultural use under the existing South Dublin County Council Development Plan, which runs to 2022. Similarly, the housebuilders will likely view the outcome of contests in the authorities stretching across the Greater Dublin Area (in particular) with interest. In theory, an increased representation for the centre-right Fine Gael party should lead to a more constructive approach to development. In practice, to paraphrase von Moltke the Elder, no draft development plan survives contact with local residents' groups.

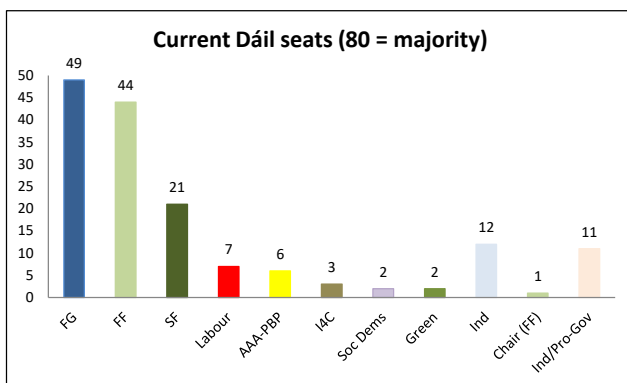
One final note is that these local elections will have an effect on the composition of the next Seanad (Senate), or upper house of parliament in Ireland. The Seanad has 60 members, of whom 11 are hand-picked by the Taoiseach (Prime Minister) and six chosen by graduates of the country's largest universities. The other 43 are elected by an electorate comprising TDs, councillors and the members of the outgoing Seanad. Fine Gael currently has only 20 Senators, leaving it reliant on the confidence-and-supply arrangement with Fianna Fáil (13 Senators) and deals with the other 27 Senators (four Labour, six Sinn Féin, one Green and 16 independents) to avoid legislation being held up by the upper house (the Seanad has no power to block bills, but it can delay their passage). Seanad elections will immediately follow the next general election.

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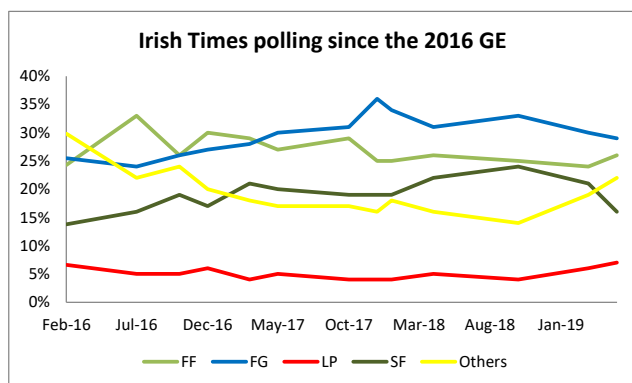
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Turning to the European Elections, how these play out could have significant consequences for domestic politics. In the 2014 contest Ireland returned 11 MEPs (four Fine Gael, one Fianna Fáil, three Sinn Féin and three independents). As a result of the UK's vote for Brexit Ireland has seen its European Parliament delegation increase to 13 MEPs. The additional seats have been allocated to the fourth-placed candidate in Dublin and the fifth-placed candidate in the South constituency, but they won't be taken up until the UK has legally left the EU.

Betting odds from Paddy Power suggest that Fianna Fáil, Fine Gael and the Greens will each gain one seat, Sinn Féin will hold its three seats and the number of independents will fall by one. Assuming the odds are correct, both Fine Gael and Fianna Fáil will see one of their TDs take a European seat. Under dual mandate legislation, they will need to resign their Dáil seat (this may be deferred if they take one of the 'Brexit seats' until the UK is able to leave the EU). While noting that by-elections can be unpredictable, the prospects for Fine Gael and Fianna Fáil holding Frances Fitzgerald and Billy Kelleher's seats if they are successful in their run for Europe do not seem to be encouraging. Fine Gael took just 26% of the vote in Fitzgerald's Dublin West constituency in the 2016 General Election, while Fianna Fáil secured 28% in Kelleher's Cork North Central constituency in the same election.



Source: Investec estimates



Source: Irish Times / IPSOS-MRBI

There are 158 TDs (members) of the Dáil (lower house of parliament). The 2016 General Election produced a messy outcome, with no one party securing even a third of the seats on offer. Fine Gael cobbled together a minority administration involving independent support and a confidence-and-supply arrangement with the main opposition party, Fianna Fáil. This confidence-and-supply deal is set to run to 2020.

With 158 TDs, on paper the votes of 80 TDs are required to achieve a majority. In practice, assuming Fianna Fáil abstains, that required figure falls to 57 (i.e. 158 minus Fianna Fáil's 44 TDs and the non-voting Speaker, which equals 113). By our reckoning, Fine Gael can count on the votes of 60 TDs, namely its own 49 TDs plus 11 independents. That gives a reasonable cushion of a majority of seven over the opposition (excluding Fianna Fáil). But if the aforementioned Fitzgerald and Kelleher are elected to the European Parliament and neither Fine Gael nor Fianna Fáil hold the seats in the by-elections that follow, then the arithmetic becomes a bit trickier, with Fine Gael and its independent supporters' number of seats falling to 59, giving a majority of just four over the opposition (excluding Fianna Fáil). Further defections or seat losses would add to the pressure. It is worth noting that in the Midlands-North West European constituency Fianna Fáil is running two TDs as its candidates, but betting odds suggest that neither of them is likely to take a seat.

The minority administration's longevity has surprised many commentators, including ourselves (we didn't think it would survive its first year in office, especially when Fianna Fáil opened up a material poll lead over Fine Gael). Since then Fine Gael has re-established itself as the most popular party in Ireland, which reduces the incentive for the opposition to force an election. Another consideration is that many voters would look unfavourably on domestic political instability, given the backdrop of Brexit and what that means for Ireland. All of the omens suggest that the government will carry on into next year and possibly run its full term (another election must be called by April 2021 at the latest).

One interesting trend is that there has been a drift towards the centrist parties, with polls showing that the combined share of the vote attracted by the traditional parties of government (Fine Gael, Fianna Fáil and Labour) is running at up to 5pc more than they managed in 2016. Assuming that the polls are mirrored in the results of this week's contests, we would argue that this reduces the risks of policy changes that would be negatively received by the markets. If we're right, then the read-through for the likes of the banks, housebuilders, REITs and Sovereign yields is positive, although we wouldn't overstate the significance of this given Ireland's existing reputation as a business-friendly climate.

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