

Catalan election will not lead to the region's independence – regardless of the result



Catalonia's high dependence on State financing, plus institutional safeguards and political imperatives significantly reduce any possibility of the region becoming independent in the near- to medium- term, according to Scope Ratings.

The decision to impose direct rule on Catalonia and call for regional elections, scheduled for 21 December, was agreed by the Partido Popular, together with the Spanish Socialist Party and the centre-right party Ciudadanos on October 27 this year following an unofficial independence referendum in the region which took place on 1 October.

While current polls indicate a tight race, with the difference of support for the separatists and unionists remaining within the margin of error, regardless of the electoral outcome, Scope considers it highly unlikely that Catalonia will secede from Spain for the following reasons:

➤ The Constitution

Any form of unilateral independence is prohibited by the constitution. This was confirmed by Spain's Constitutional Court in September 2017 when it judged prior to the vote that the referendum was illegal as changes to the constitution can only be voted on by all of Spain's people. Such a change requires building a broad, cross-party support at the national level.

➤ Public opinion

Public opinion in the rest of Spain remains against Catalan secession, which blocks the chances for constitutional reform facilitating a legal, official independence referendum (like that held in Scotland in 2014). In addition, the Catalan secessionist movement in itself does not hold an overwhelming majority in the region.

Over the last few years, Catalan leaders have successively sought to enhance their mandate for further autonomy via non-binding referendums, first for 'self-determination' in 2014 and more recently in October for 'independence'. While votes cast supported independence (81% in 2014 and around 90% in 2017), both referenda had low turnouts - about 37% in 2014 and 43% in 2017. In the upcoming election, parties must win more than 3% of the vote in a province to gain seats.

The Barcelona province, which is generally more supportive of the union with Spain, has slightly fewer seats than its population should warrant which, in 2015, resulted in the pro-independence forces Together for Yes and the CUP being allocated 53% of deputies in the 135-member parliament, despite commanding only 48% of the popular vote.

Latest polls indicate a tight race on high voter turnout (around 80%), with the difference of support for the separatists (ERC, JuntsXCat and CUP) and unionists (PP, PSC, Cs)¹ varying depending on the poll, and crucially, remaining within the margin of error². However, the aggregate support for pro-independence parties has barely changed for 18 years, and the 48% suggested by current polls is about where it has been for the past six elections³.

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¹ Pro-independence: ERC = Republican Left of Catalonia, JuntsXCat = Junts per Catalunya, CUP = Popular Unity Candidacy; Anti-independence: PP = Partido Popular, PSC = Socialists' Party of Catalonia, Cs = Ciudadanos

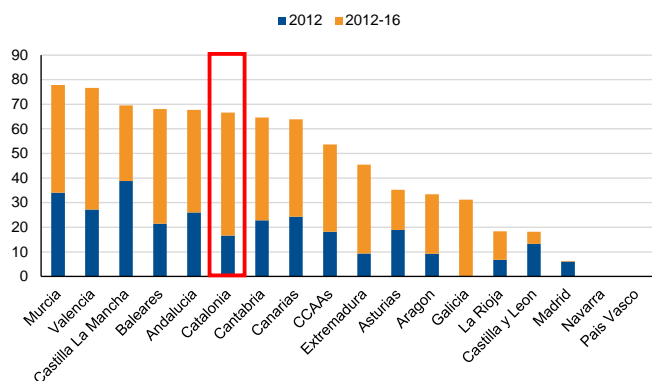
² https://elpais.com/elpais/2017/12/14/media/1513273031_148477.html

³ <https://ig.ft.com/catalonia-poll-tracker/>

➤ Financial support

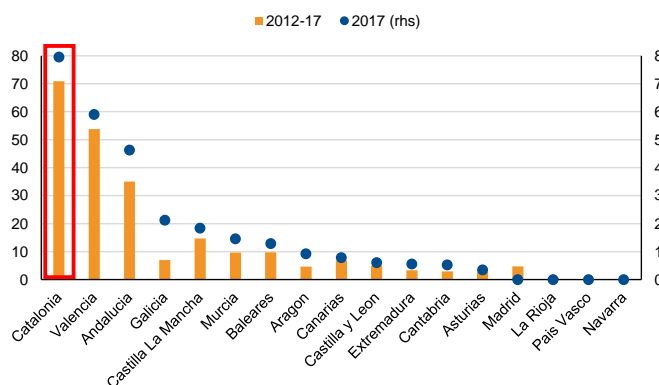
Catalonia lacks the financial means to pursue independence and is in fact among the most financially dependent regional autonomies in Spain. Scope notes that since July 2012, Catalonia has been predominantly funded by the Fondo de Liquidez Autonómica (FLA), a credit line from the central government to regional administrations. Since the FLA was launched, Catalonia has received the most liquidity in absolute terms - approximately EUR 71bn - of which EUR 7.8bn was given in 2017 alone. As a result, the Spanish government holds almost 70% of total Catalan debt.

Figure 1: Debt owed to central government, % total



Source: Banco de Espana

Figure 2: Central government liquidity support, EUR bn



Source: MHAP

➤ International support

To date, the European Union (EU) and the United States amongst others have rejected Catalan appeals for independence, stating the issue to be a domestic one between the Spanish and Catalan governments, adding that the Spanish Constitution must be adhered to. The EU has also stated that an independent Catalonia would be outside its membership and the Single Market, and that the Catalan financial system would be cut off from European Central Bank funding.

➤ Economic consequences

Since the October vote, more than 3,000 companies have relocated their headquarters from Catalonia to other Spanish regions, including six of the seven Catalan companies listed in the IBEX 35⁴, arguing that it is a strategic move to protect the interests of their shareholders, clients and employees. It is estimated that the 62 main companies that have left constitute about EUR 11.5bn of direct GDP, or 5.4% of Catalan or 1% of Spain's economy⁵. As the impact of these decisions becomes apparent, Scope expects secessionist ambitions to subside.

⁴ Sabadell, Gas Natural, CaixaBank, Abertis, Cellnex and Colonial. Grifols is the only company that has stayed.

⁵ <http://www.expansion.com/empresas/2017/10/06/59d74d6e22601d64698b469f.html>

Scope's baseline

Scope expects that a pro-independence party victory could possibly prolong central government intervention and the associated economic uncertainty, while a pro-union victory would ease current tensions with the central government. Irrespective of the electoral outcome, the developments in Catalonia over the past several years point to the need to reform Spain's fiscal framework, including reform of the revenue equalization system - which has been postponed since 2014.

Given the institutional safeguards in place and the political constraints, it is Scope's view that the most likely outcome from Catalan secessionist desires is a negotiated further devolution, including greater fiscal and/or political autonomy within Spain. However, given the implications to the sovereign and other regions, as well as the complexity and sensitivity of federal fiscal relations, varying preferences for autonomy, and the need for central and regional budgetary stability, Scope expects this negotiation to require national constitutional changes taking several years.



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