Flash by EIC

SCB Economic Intelligence Center

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"Catalexit" supporters win majority in local elections in Catalonia, Spain

Event

- Results of the vote count in the evening of 21 December (Spanish time) revealed that Catalexit supporting Catalonia pro-independence parties Republican Left of Catalonia (ERC), Junts per Catalunya (JuntsXCat), and Popular Unity Candidacy (CUP) won 47.6% of the votes and gained 70 out of 135 seats in the regional parliament. The anti-independence parties Ciudadanos (Citizens, Cs), Socialists' Party of Catalonia (PSC), and People's Party of Catalonia (PP) received 49.3% total votes but only took 57 seats. The fact that Catalexit supporting parties won more than half of the seats means that are likely to form a regional government that maintain support for the policy on Catalonia's separation from Spain.

- On 27 October, Spanish Prime Minister Mariano Rajoy invoked article 155 of the Spanish Constitution enabling the central government to intervene in Catalonia through dissolving the regional parliament and called for an election after Carles Puigdemont, former President of Catalonia, declared victory in separation from Spain following an illegal referendum on 1 October. Some Catalans support the independence agenda because they are unhappy that they have to pay taxes as high as 16% to the central government to support the poorer regions. The Catalonia region also has its own identity and local language which led to many Catalans viewing the region as being detached from the other Spanish regions.

Analysis

- **The victory of the Catalexit supporters added to the risk in the Spanish economy** since the new government is most likely to maintain the separation goal. Should Catalexit happen, the Spanish economy will be severely impacted as Catalonia is an important economic region accounting for 20% of Spain's total economy (Spain contributes 7.5% to the total Eurozone economy). Additionally, if Catalonia leaves Spain, they must also leave the EU which will have negative consequences for the region.

- **In any case, EIC views that this political turmoil will not lead to Catalexit but is like to create prolonged uncertainty to the economy.** EIC believes that the Spanish government will not let Catalonia split from Spain because it will have dire economic, political, and social consequences to the country. The central government can always invoke article 155 of the Spanish Constitution to regain control of Catalonia should they need to. However, the political turmoil from domestic protests will create a prolonged uncertainty to Catalonia's economy whether in (1) the manufacturing sector which must close temporarily due to the protests (2) tourism, especially in Barcelona, and (3) potential boycott of Catalonia goods by Spain.

Implication

- **The consequences of Catalexit will remain limited to within Spain and will not have much impact on the Eurozone economy.** Even if Catalonia is able to split from Spain and the EU, there will be only limited impacts on the Eurozone economy. This is because Catalonia only accounts for 1.5% of total Eurozone economy. Moreover, should Catalexit happens, Catalonian businesses can relocate to other Spanish cities. Therefore, EIC does not believe that the Eurozone economy will be significantly impacted by Catalexit with a continued growth of 2.1% in 2018 from 2.3% growth in 2017. Meanwhile, the Euro is likely to slightly appreciate against US dollar at USD 1.20 per 1 Euro in the late-2018 from the current rate of USD 1.18 to 1 Euro.

- **The next risk for Eurozone economy is the Italian general election on 4 March 2018.** The poll in December showed that anti-EU parties such as the 5-Star Movement (M5S) were in the lead with 27.5% popularity while PD party of the former prime minister Mario Renzi received a lower popularity rating at 24.6%[1]. Italy's protracted economic problems, especially in banking, led to the continued popularity of M5S. IF M5S wins a majority in the Italian election and able to form the government, the referendum to vote Italy out of the EU is likely to follow.

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1 Poll collected by Wikipedia