

October 10, 2017

Catalonia

Although we believe the likelihood of Catalonia becoming independent is low (lower than Scotland for example), the ramifications of the current situation are important enough for us to believe that it is a key risk in the next few months.

1. How did we get there?

Despite a limited historical basis (there was a “Principality of Catalonia” from 1162 to 1716, but, arguably, it was not really a sovereign state) the aftermath of the financial crisis in Spain fuelled a strong social movement (in which Podemos took an important part) in Catalonia, supporting the independence of the region.

The main narrative of supporters of independence is based on three grounds:

- The absence of Catalan national identity within an “authoritarian” Spain, even though, e.g., pupils can study in Catalan in public schools.
- The unequal sharing of the financial burden – and they might have a point there as Catalonia is contributing a lot, to the point that its debt is high (and credit rating low) despite being one of the wealthiest Spanish region.
- A historical basis, which is a mixture of the old Catalan state and memories of Franco’s dictatorship.

The Popular Party also holds some responsibility: in 2004 it refused the Socialist Party’s proposed constitutional reforms and this led the Catalan government to amend its own Statute of Autonomy (with a local referendum.) The Popular Party attacked the new statute, collecting 4 million signatures against it and challenging it before the Constitutional Court which dismissed important parts of the new Statute. This was considered very aggressive by the Catalan population and instead of granting slowly more autonomy to Catalonia it antagonised the debate.

All this led to the majority of the Catalan Parliament being now in favour of independence, even though independence supporters are a mix of right-wing and left-wing parties and that they gathered only 47% of the popular vote in the last elections.

In November 2015 a parliamentary resolution was passed saying that:

- Catalan laws only would apply in Catalonia

- The Spanish Constitutional Court had no legal authority in Catalonia (obviously rejected by the Constitutional Court)

A few weeks ago, the Parliament voted (in a fast track procedure) to organise a referendum on independence and to define the procedure to declare independence in case of a “favourable” outcome to the referendum. According to this law, independence **must** be declared within 48 hours.

Obviously, this is all in contradiction with the Spanish constitution and the Constitutional Court rejected these laws. Still, the referendum was held, despite the Spanish government taking legal and practical measures to block the ballot. On the day of the vote, several clashes between the police and voters occurred and were condemned by the international community. Arguably, the government made a mistake by using force while it could simply have ridiculed a referendum that was organised hastily, illegally, with no independent control on the votes, with a small turnout and a ridiculous amount in favour of independence, suggesting that only voters in favour of independence voted – not unlike the Crimean referendum that was so heavily criticised by the EU!

2. What’s next

There are many possible ramifications to the current situation, but we try to detail the most likely “end-game scenarios” and try to organise them.

Case 1. The Catalan government declares its independence

If the Catalan Government declared its independence (“legally” it should have done so on Monday October 9th), we think the Spanish government would have no choice but to trigger article 155 of the Spanish Constitution, which effectively allows the government to remove from office a local government which is in deliberate breach of the Constitution. There are two sub-scenarios there:

Case 1.a. The Spanish government is unable to trigger Article 155

Recall that the Spanish government has a very thin majority in Parliament (and even, arguably, no majority at all, as it relied in the past on the support of small parties, including independentist parties, to pass important laws). If the Socialist Party refuses to support the government in triggering Article 155 (and this is a real possibility), then we think the government could very well fall and there would be new general elections (yes, the return of Groundhog Day.) This brings us to several possibilities:

Status quo: the Parliament looks the same, back to square 1.

- The Socialist Party wins the elections: we believe this would increase the probability of a negotiation with the Catalan authorities, but the government could also trigger Article 155 (cynically.)



- Podemos wins the elections: we think there is a possibility that Podemos would grant the right of self-determination to Catalonia and this is the only realistic scenario in which we think independence is possible.
- The Popular Party wins the elections. We think it would trigger Article 155.
- There is no majority and a coalition is necessary: Article 155 will become the key item in the coalition negotiations. The government could negotiate or trigger.

Case 1.b. The Spanish government manages to trigger Article 155

This would lead to local elections with, again three possible outcomes:

- A pro-independence Parliament is elected: go back to square 1.
- A anti- independence Parliament is elected: this would be the end of the independence process.
- The elections cannot take place because of clashes between the “Spanish” and local authorities. This would be a very bad scenario which could lead to an emergency state being called in Spain, we think. Ultimately, we believe elections would still be organised, somehow.

Case 2. The Catalan government negotiates

We believe this could happen either immediately or after a round of local or general elections. We think this will be the ultimate endgame, with a high probability (90%) but the path to get there could be very bumpy.

What is the likely outcome of such negotiations? They would most probably focus on (i) more autonomy (as in the UK with the devolved authorities), (ii) a more favourable financial settlement for Catalonia and (iii) a higher presence of Catalanian culture in public services. All this should be fairly achievable. However, the key question will be whether the negotiations will allow Catalonia to ultimately hold a valid independence referendum, which would imply constitutional changes. More realistically, the outcome of the negotiations (without independence) could be subject to a referendum with a positive vote bringing an end (for now) to the independence process.

The various sub-scenarios are the following:

- A package of reforms is agreed upon and they do not require constitutional changes. These are approved in a local referendum. This would end the process for some time and is, in our view, the most likely scenario as we think there is not a majority of the popular vote for independence.



- A package of reforms is agreed upon and they do not require constitutional changes. But these are rejected in a local referendum. Back to square one.
- A package of reforms is agreed upon but it requires constitutional changes. We think this scenario is less likely as the current government lacks the Parliamentary support to easily pass Constitutional changes. This could lead to the reforms being accepted (i.e. end of the process) or refused by the Parliament, with subsequent general elections, and depending on the outcome of the elections either the end of the process or back to square one. Obviously, these could also be submitted to the Catalans for referendum, which would, again, either trigger the end of the process or start it all over again.
- A right to self-determination is given to Catalonia. We think this scenario is the least likely because (i) the current government lacks the Parliamentary support to easily pass Constitutional changes, (ii) there is very limited appetite in the largest parties (except Podemos) to accept it and (iii) it could trigger contagion risk to other Spanish regions. This scenario would ultimately either end the process for quite some time or lead to a Catalan Republic! (A kingdom is rather unlikely.)

Case 3. The Catalan government / Parliament is unable to reach a consensus

As we said above, the pro-independence forces in the Catalan Parliament are very diverse in nature. It is very possible that no consensus is reached within the Parliament on the right course of action. In that case, local elections are a very likely scenario (back to Case 1.b.)

