Revealed: Catalonia's Macro-economic Assessment of Options for Greater Independence within the EU

A future independent Catalonian state would be more successfully achieved through a mutually agreed resolution with Spain, rather than opting for a potentially uncertain and hence detrimental unilateral secession, a major report has concluded.

If such an outcome were to be reached, it could have a beneficial impact on long term Catalan economic prospects, but could also be a potential game changer for both Spain and Catalonia's relationship with the EU.

The possibility of either a mutual or unilateral secession from Spain has been extensively assessed in a study produced by a consortium of European research institute and think-tanks, released in July 2015, entitled "Scenarios of Macro-economic Development for Catalonia on Horizon 2030 – the Economic effects of a potential secession of Catalonia from Spain and paths of integration with the EU."

The research, carried out under the Directorship of Professor Rym Ayadi, of HEC Montreal, who is also President of the Euro-Mediterranean Economists Association (EMEA), was conducted between October 2013 and May 2015, by a group of five leading research centres, comprising CIDOB (the Barcelona Centre for International Affairs), the Institute of Studies for the Integration of Systems (ISIS, Italy) E3-Modelling, Energy, Economy & Environment (E3M, Greece), the Centre for European Policy Studies (CEPS, Belgium) and the European Mediterranean Economists Association (EMEA).

Although the EU had not yet to experience any secession movements from within its borders, the Report recognised that 2014 had been marked by "massive mobilisations in Scotland and Catalonia, seeking to secede from the UK and Spain."

Whilst the Scottish referendum rejected separation from the UK, in Catalonia, political and legal quarrels continued with the Spanish Government, it observed.

Against this background, the Horizon 2030 study simulated and assessed several scenarios for the future development of Catalonia within the rest of Spain and within the EU.

Economically, the report summarised that Catalonian secession from Spain could be brought about by several factors. These ranged from policy preference differences and more generally, heterogeneity. This was described as the variation in efficiencies of redistribution, mutual insurance and prospects for economies of scale in public-goods provision, to the inter-regional differences in taxation and the public finance benefits of large jurisdictions versus the costs of political heterogeneity.

If a "business as usual" scenario was to continue, policies and trends observed in the recent past in Catalonia, Spain and the EU would prevail until 2030. Catalonia would remain an autonomous community within Spain, with fiscal imbalances continuing until 2030, similar to those recorded over recent years, of around 8% of GDP, said the Report.

Alternative options, however, would entail changing the status-quo of the relationship between Catalonia and Spain and/or of the whole European Union.

For this to happen, two distinct scenarios were modelled; firstly a negotiated independence process, leading to a smooth transition of Catalonia from being an autonomous community of Spain, or secondly for Catalonia to become a new, unilateral EU member state – neither negotiated nor agreed with the Government of Spain – leading to its secession from Spain.

The unilateral secession could lead, in practice, to a discontinuing of EU membership for Catalonia, because the Government of Spain would be likely to use its powers to veto any formal recognition of the new Catalonia state with the European Union, the Report suggested.

If the entire status quo of the relationship between Catalonia, Spain and the EU was to change, however, then this could mean that a total reform of the European Union would be possible. This could lead to two further possibilities - Catalonia contributing to reform of the entire EU as a new member state from within the Union itself – after negotiating and agreed independence from the Government of Spain – or operating as a region of Spain with greater fiscal autonomy than today.

In which case, the Report said, Catalonian autonomy would take on a similar form to that currently experienced by the Basque region. This would allow greater influence over some specific regional matters, such as the EU cohesion policy, where the contribution of Catalonia as a wealthier region of Europe could be augmented.

A final outcome could be for Catalonia to leave the EU, following unilateral secession and then to exert influence from outside the EU reform process, reducing Spain's veto powers or those of other member states to Catalonia's re-admission to a new EU.

Prof Ayadi, who is also Director of the International Research Institute on Cooperatives and of the International Research Centre on Cooperative Finance and a former Senior Research Fellow and Head of Research of the Financial Institutions Unit at CEPS, explained that each of the forward-looking options available to Catalonia had been assessed with a scenario building methodology. These drew on a combination of desk research, forward-looking qualitative and quantitative analyses, together with policy implications and recommendations.

Regardless of whether Catalonia became an independent state through mutual agreement or unilateral secession, the Horizon 2030 study concluded that, from a macro-economic perspective, the status quo scenario was unsustainable, both from an economic growth and employment viewpoint, due to Catalonia's high and sustained deficit.

It said that in the short term, general uncertainty, high interest rates and a volatile investment environment, triggered by the decision to secede, would slow the Catalan GDP growth rate. This would be more pronounced if the decision to secede was unilateral. However, the structure of the Catalan economy and the pursuit of fiscal policy towards a balanced public budget, could deliver a higher than predicted GDP and employment growth rates, once the transition period to sovereignty was over.

The short term effects of a Catalan secession would be difficult to accurately quantify, the Report suggested because, although there would be positive changes in fiscal imbalances and improved domestic productivity, this would be offset by uncertainty and risk factors. In the long term, uncertainty would reduce through the strong economic fundamentals of the Catalan economy, an expanding infrastructure, greater productivity, competiveness and more effective public spending.

As expected, Catalonia would benefit more under a mutually agreed secession because the reduced uncertainties and risks associated with secession would allow for a faster economic recovery following the shock of independence from Spain.

If secession from Spain was mutually agreed, Catalonia would undertake 20% of Spanish debt but this figure would fall to 12% in the unilateral action scenario, the Study continued. In both instances, Catalonia's proportion investment in infrastructure would remain throughout at 2% of GDP.

The Report concluded that the most favoured scenario would be for a mutually agreed solution between Catalonia and Spain and an orderly planned resolution - as opposed to unilateral secession – because it would reduce uncertainty and risk, which would be detrimental to all parties.

The scenarios for cooperation between the new Catalan state and the European Union in its current institutional setting were extensively researched, with the most preferable route being a smooth transition towards a mutually agreed, legally binding framework.

In the longer term, a reformed European Union into a "European Political Union (EPU)" would "change the game for both Spain and Catalonia negotiations", the study said. "This is assumed to unfold under the pressure of disruptive economic and geopolitical dynamics, of which today, we are already seeing a number of signals."

If this were to happen, said the Report, Catalonia could achieve independent Member State status of the EPU, either under the mutual agreement or unilateral scenarios, although this might not come about if negotiations between Catalonia and Spain resumed sooner.

In the short term, the change of the fiscal imbalance between Spain and Catalonia would benefit the Catalan economy due to increased public investment and its economy-wide "multiplier effects". Higher domestic productivity would reduce unemployment, without exerting significant wage pressure. But the decision to secede would create uncertainty and increases market interest rates and the risk premium.

In the long term, increased infrastructure capacity would boost productivity, improving the overall competitiveness of the economy. Although additional public spending would reduce unemployment, it may adversely affect competitiveness because of upward pressure being exerted on wages. But as the fundamentals of the Catalan economy strengthened - sustainable debt, a balanced public budget and low unemployment - uncertainty would diminish and interest rates would fall.

The simulated results showed that the end of fiscal imbalances with Spain's Central Administration, implied a net gain for Catalonia. Catalonia would benefit from increased public investment and the long term impact of enhanced productivity and competition.

Furthermore, there could be a significant beneficial impact on the Catalan economy, if it were to change its current debt sharing agreement with Spain. There could also be an opportunity for greater Catalonian trade diversification, were it to move away from Spain as its main trading partner.

Prof. Ayadi described the set of assumptions used as moderate. "The Model used in the Report is dependent upon the set of assumptions outlined and does not provide an assessment of extreme scenarios," she said.

The study was launched on the 15 July 2015 at the European Parliament.
The meeting was hosted by MEP **Ramon Tremosa i Balcells**, MEP **Ernest Maragall i Mira** and MEP **Josep Maria Terricabras i Nogueras**.

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