

Catalonia and Spain after the Catalanian referendum on October 1st, 2017

What has happened in Catalonia after the “Yes” result of the referendum?

There are two key events to follow. The legislature of Barcelona will convene today at 5pm local time to decide on the fate of Catalonia. It is supposedly the last time Catalanian parliament

Spanish Prime Minister Rajoy has already announced his plans to remove the separatists' administration and take direct control of institutions including the regional police force and public media. A senate vote is due tomorrow that will likely grant Rajoy the authority he's seeking to crackdown i.e. evoke article 155. However, Mr. Rajoy's stance on the situation has attracted a strong criticism not just from Catalonia but from the leaders of Basque country.

A probable solution to this stand-off could be early elections to the region's legislature but that might end-up in a deadlock, just like it did in year 2015.

Any declaration of Independence by the Catalan President could mean he'd be accused of rebellion, a crime that entails immediate jail pending trial and possible sentence of 30yrs.

Catalonia's separatists are also readying efforts to block Spain's plan to seize their powers and oust them from office. Pro-Independence activists are fine-tuning plans for a human shield to stop the Spanish authorities from gaining the access to regional buildings.

Catalan President believes that referendum results give him a mandate to establish a Catalan republic, and the Spanish Prime Minister believes that he has no choice but to evoke article 155 to restore legal order in Spain. He adds that he wants to trigger elections in the region within six months.

What more can Catalan side do?

The Catalan side will lodge an appeal in Spain's constitutional and Supreme courts against Prime Minister Rajoy's decision to sack Catalanian's government and curtail the regional parliament's powers. If unsuccessful, the case will be pursued in International courts.

Impact on Businesses. The unrest in the region has hit the Businesses moderately and it is expected to have an impact on the economic situation of Catalonia. Five of the six Catalanian companies on the IBEX35 have shifted their headquarters out of Barcelona. Two of the biggest Spanish banks were impacted most by the on-going situation. CaixaBank suffered a “moderate” run on the deposits due to the crisis but the losses were reversed after the bank shifted its headquarters to Valencia. More than 1300 companies have left the region to be able to continue operating under the European Union Laws incase Catalonia breaks away from Spain.

The yield on 10Y Spanish Govt. bonds rose to 1.8% after the referendum results, however it is now back to 1.63 (pre-referendum level). IBEX35 is currently at the pre-referendum level as well.

Stock Price of the two important Catalan Banks: CaixaBank and Banco Sabadell fell by 10% over the last month. Although, the stocks performed a little better after these banks moved their headquarters out of the region.

The Spanish Finance minister claims that Spain will grow this year at just above 3% (in line with previous forecasts but the forecast for next year has been slashed.

According to the CaixaBank estimate, there will be a little impact on the forecast of 2.7% for next year. However, if the situation develops in a different way i.e. prolongs without a conclusion, the impact on GDP can be more than moderate.

The future of QE: what to expect from Mario Draghi

The European Central Bank's governing council gathers in Frankfurt on Thursday to debate how it plans to wean the eurozone off its €2tn monetary stimulus programme that many credit with saving the bloc's economy from stagnation. The task facing the eurozone's 25 monetary policymakers and ECB president Mario Draghi is how to step back from the massive bond-buying exercise known as quantitative easing without alarming investors and harming the bloc's economic recovery. Economic output has risen and unemployment has fallen since the ECB began its unprecedented programme in the spring of 2015. But with QE slated to run until the end of the year, the question is what happens in 2018? The ECB is currently buying €60bn of mostly government bonds per month as part of its QE programme. The key for investors on Thursday will be the size and timeframe of the asset purchases that will continue into next year. Analysts expect Mr Draghi will announce a slowing of the bond-buying programme to between €20bn-€40bn. If the headline figure drops to €40bn, the central bank could decide to limit QE to a further six months' worth of purchases. If the change is more dramatic and closer to €20bn, then a longer taper of nine or 12 months is expected. Most analysts have predicted that Peter Praet, ECB chief economist, will recommend a slower taper — a view reflected in market expectations of a further nine months of purchase at a pace of €30bn a month.

The driver behind a slower taper is that it will push back expectations of the first rate rise in the eurozone to at least the first quarter of 2019. The ECB hopes that by committing to keep interest rates on hold for the duration of next year, the bank will limit any gains for the euro against the US dollar — and in so doing prevent a fall in inflation on the back of cheaper import prices.

Comment: What the article underlines is the necessity for ECB to keep interest rate low in order to avoid the appreciation of the euro against the dollar and so on a decreasing external competitiveness for European Union.

The objective of keeping low interest rate in the next year, can be achieve by cutting the amount of purchased bonds per month from EUR 60 bn to a range of EUR 20-40 bn.

In case, ECB will opt to do not run QE in the second semester of 2018, the decision may put high pressure on European economy because of expected increasing deficit.

