

CATALONIA REGIONAL ELECTION: INDEPENDENCE NO LONGER THE KEY ISSUE?

Guillaume Derrien

Elections polls point towards a breakthrough by the Socialist Party and the far right to the detriment of the centre-right Ciudadanos party.

Although political risks continue to persist in Catalonia today, the economic downturn caused by the Covid-19 crisis could weaken the momentum for the pro-independence movement and increase support for the Central Government

The Covid-19 crisis has accentuated Catalonia's dependence on the Central Administration and Europe more broadly.

UNEMPLOYMENT RATE, CATALONIA & NATIONWIDE

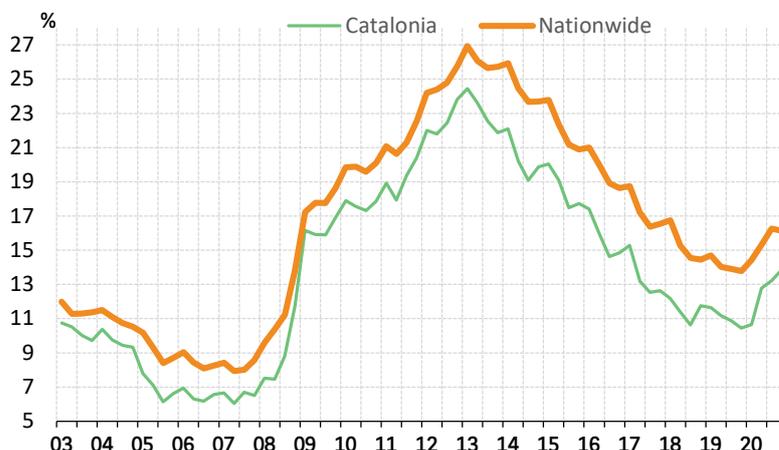


CHART 1

SOURCE: INE

Sunday's election could shake up Catalonia's political landscape rather significantly. Should the polls prove right, *Ciudadanos*, the centre-right party that won the majority of votes in 2017, is expected to lose significant ground in favour of the extreme-right party *Vox*, which could enter Catalonia's Parliament for the first time ever. The Socialist Party, led by former Health Minister Salvador Illa, is also predicted to make a breakthrough, perhaps securing more votes than the two pro-independence parties, the Republican Left of Catalonia (ERC) and Together for Catalonia (JxCat). Note, however, that the election results are still highly uncertain, and will surely give rise to some alliance building to create a new parliamentary majority.

Although political risks persist in Catalonia today, the economic downturn caused by the Covid-19 crisis could weaken the pro-independence movement and increase support for the Central Government. The unemployment rate in Catalonia has indeed jumped from 10.4% in Q4 2019 to 13.9% in Q4 2020 (Spanish statistics office INE, see chart 1). The growing weight of the services sector is the main reason why the economy, and the job market in particular, were hit so hard by the crisis.

ECONOMIC RESEARCH



BNP PARIBAS

The bank
for a changing
world

The shrinking of the region's industrial sector has certainly slowed in recent years, although it hit a new low in Q4 2020, with the sector accounting for only 17.4 % of employment (INE data, see *chart 2*). Prior to the pandemic, however, the region's job market situation was comparatively healthier than in the rest of Spain, thanks notably to its vibrant tourism sector. Furthermore, the region's unemployment rate remains, at the end of 2020, nearly 2.5 points below the national average, and close to its 2017 level. Even so, unemployment is still highly contained by government support measures, notably the ERTE temporary unemployment scheme.

The Covid-19 crisis will also accentuate the region's fiscal dependence on the Central Government. Although the region has maintained a relatively small and stable public deficit since 2017 (-0.6% of Catalonia's GDP in 2019), the weight of the Central State as a creditor of the region has increased very sharply in recent years. While the Central Government covered only about a third of the region's financing needs in 2016, this figure rose to more than 70% in 2019. One of the factors behind this shift was the introduction of a new credit line (Fondo de Liquidez Autonómica) in 2012 – in response to the economic crisis – that facilitated Central Government loans to the autonomous regions¹. During the next administration, this ratio is expected to rise even further due to the economic impact of the pandemic.

European economic support via the EU Next Generation recovery fund may also enable Madrid to reinforce its position vis-a-vis Catalonia's Parliament. Over the next six years, Spain will receive nearly 73 billion euros (5.6% of GDP) in direct subsidies via the new European mechanism and 140 bn euros (10.7% of GDP) if we include the loans. Of course, a large amount of these funds will go to Catalonia, given the region accounted for 19% of total Spanish GDP in 2019. Catalonia's leaders have been trying to obtain direct management of these funds, but this control will likely remain in the hands of Prime Minister Pedro Sanchez and the Central Administration.

Catalonia's political landscape is still highly fragmented today. Yet regardless of the results of Sunday's elections, the prospects of a popular surge like the one in 2017 seem less likely. The health and economic crises have relegated pro-independence issues in the political debate more in the background.

Guillaume Derrien

SHARE OF INDUSTRY (EX-CONSTRUCTION) IN EMPLOYMENT IN CATALONIA



CHART 2

SOURCE: INE

¹ «El Estado sufragará el 82% de la financiación del próximo Govern», El Economista, 9 February 2021.

GROUP ECONOMIC RESEARCH

William De Vijlder
Chief Economist

+33 1 55 77 47 31

william.devijlder@bnpparibas.com

ADVANCED ECONOMIES AND STATISTICS

Jean-Luc Proutat
Head – United States

+33 1 58 16 73 32

jeanluc.proutat@bnpparibas.com

Hélène Baudchon
France - Labour markets

+33 1 58 16 03 63

helene.baudchon@bnpparibas.com

Louis Boisset
European Central Bank watch, Euro area global view, Japan

+33 1 57 43 02 91

louis.boisset@bnpparibas.com

Frédérique Cerisier
Euro area (European governance and public finances)

+33 1 43 16 95 52

frederique.cerisier@bnpparibas.com

Hubert de Barochez
United Kingdom, Nordic countries

+33 1 43 16 95 52

hubert.debarochez@bnpparibas.com

Guillaume Derrien
Spain, Portugal

+33 1 55 77 71 89

guillaume.derrien@bnpparibas.com

Raymond Van Der Putten
Germany, Netherlands, Austria, Switzerland – Energy, climate – Projections

+33 1 42 98 53 99

raymond.vanderputten@bnpparibas.com

Tarik Rharrab
Statistics

+33 1 43 16 95 56

tarik.rharrab@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon
Head

+33 1 42 98 56 54

laurent.quignon@bnpparibas.com

Laure Baquero

+33 1 43 16 95 50

laure.baquero@bnpparibas.com

Céline Choulet

+33 1 43 16 95 54

celine.choulet@bnpparibas.com

Thomas Humblot

+33 1 40 14 30 77

thomas.humblot@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François Faure
Head – Argentina

+33 1 42 98 79 82

francois.faure@bnpparibas.com

Christine Peltier
Deputy Head – Greater China, Vietnam, South Africa

+33 1 42 98 56 27

christine.peltier@bnpparibas.com

Stéphane Alby
Africa (French-speaking countries)

+33 1 42 98 02 04

stephane.alby@bnpparibas.com

Stéphane Colliac
Turkey, Ukraine, Central European countries

+33 1 42 98 43 86

stephane.colliac@bnpparibas.com

Perrine Guerin, Sara Confalonieri
Africa (Portuguese & English-speaking countries)

+33 1 42 98 43 86

perrine.guerin@bnpparibas.com

Pascal Devaux
Middle East, Balkan countries

+33 1 43 16 95 51

pascal.devaux@bnpparibas.com

Hélène Drouot
Korea, Thailand, Philippines, Mexico, Andean countries

+33 1 42 98 33 00

helene.drouot@bnpparibas.com

Salim Hammad
Latin America

+33 1 42 98 74 26

salim.hammad@bnpparibas.com

Johanna Melka
India, South Asia, Russia, CIS

+33 1 58 16 05 84

johanna.melka@bnpparibas.com

CONTACT MEDIA

Michel Bernardini

+33 1 42 98 05 71

michel.bernardini@bnpparibas.com



BNP PARIBAS

The bank
for a changing
world



CONJONCTURE

Structural or in news flow, two issues analysed in depth



EMERGING

Analyses and forecasts for a selection of emerging economies



PERSPECTIVES

Analyses and forecasts for the main countries, emerging or developed



ECOFASH

Data releases, major economic events. Our detailed views...



ECOWEEK

Weekly economic news and much more...



ECOTV

In this monthly web TV, our economists make sense of economic news



ECOTV WEEK

What is the main event this week? The answer is in your two minutes of economy



MACROWAVES

The economic podcasts

SUBSCRIBE ON OUR WEBSITE
[see the Economic Research's website](#)

ET

FOLLOW US ON LINKEDIN
[see the Economic Research's linkedin page](#)

RECEIVE OUR PUBLICATIONS

The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. This report does not constitute an offer or solicitation to buy or sell any securities or other investment. It does not constitute investment advice, nor financial research or analysis. Information and opinions contained in the report are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient; they are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein. Any reference to past performance should not be taken as an indication of future performance. To the fullest extent permitted by law, no BNP Paribas group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report. BNP Paribas SA and its affiliates (collectively "BNP Paribas") may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this report or derivatives thereon. BNP Paribas may have a financial interest in any issuer or person mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon. Prices, yields and other similar information included in this report are included for information purposes. Numerous factors will affect market pricing and there is no certainty that transactions could be executed at these prices. BNP Paribas, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this report. BNP Paribas may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this report. BNP Paribas may be a party to an agreement with any person relating to the production of this report. BNP Paribas, may to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis on which it was based, before its publication. BNP Paribas may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this report. Any person mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

BNP Paribas is incorporated in France with limited liability. Registered Office 16 Boulevard des Italiens, 75009 Paris. This report was produced by a BNP Paribas group company. This report is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNP Paribas. By accepting this document you agree to be bound by the foregoing limitations.

Certain countries within the European Economic Area:

This report has been approved for publication in the United Kingdom by BNP Paribas London Branch. BNP Paribas London Branch is authorised and supervised by the Autorité de Contrôle Prudentiel and authorised and subject to limited regulation by the Financial Services Authority. Details of the extent of our authorisation and regulation by the Financial Services Authority are available from us on request.

This report has been approved for publication in France by BNP Paribas SA. BNP Paribas SA is incorporated in France with Limited Liability and is authorised by the Autorité de Contrôle Prudentiel (ACP) and regulated by the Autorité des Marchés Financiers (AMF). Its head office is 16, boulevard des Italiens 75009 Paris, France.

This report is being distributed in Germany either by BNP Paribas London Branch or by BNP Paribas Niederlassung Frankfurt am Main, a branch of BNP Paribas S.A. whose head office is in Paris, France. BNP Paribas S.A. - Niederlassung Frankfurt am Main, Europa Allee 12, 60327 Frankfurt is authorised and supervised by the Autorité de Contrôle Prudentiel and it is authorised and subject to limited regulation by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

United States: This report is being distributed to US persons by BNP Paribas Securities Corp., or by a subsidiary or affiliate of BNP Paribas that is not registered as a US broker-dealer. BNP Paribas Securities Corp., a subsidiary of BNP Paribas, is a broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority and other principal exchanges. BNP Paribas Securities Corp. accepts responsibility for the content of a report prepared by another non-U.S. affiliate only when distributed to U.S. persons by BNP Paribas Securities Corp.

Japan: This report is being distributed in Japan by BNP Paribas Securities (Japan) Limited or by a subsidiary or affiliate of BNP Paribas not registered as a financial instruments firm in Japan, to certain financial institutions defined by article 17-3, item 1 of the Financial Instruments and Exchange Law Enforcement Order. BNP Paribas Securities (Japan) Limited is a financial instruments firm registered according to the Financial Instruments and Exchange Law of Japan and a member of the Japan Securities Dealers Association and the Financial Futures Association of Japan. BNP Paribas Securities (Japan) Limited accepts responsibility for the content of a report prepared by another non-Japan affiliate only when distributed to Japanese based firms by BNP Paribas Securities (Japan) Limited. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan.

Hong Kong: This report is being distributed in Hong Kong by BNP Paribas Hong Kong Branch, a branch of BNP Paribas whose head office is in Paris, France. BNP Paribas Hong Kong Branch is registered as a Licensed Bank under the Banking Ordinance and regulated by the Hong Kong Monetary Authority. BNP Paribas Hong Kong Branch is also a Registered Institution regulated by the Securities and Futures Commission for the conduct of Regulated Activity Types 1, 4 and 6 under the Securities and Futures Ordinance.

Some or all the information reported in this document may already have been published on <https://globalmarkets.bnpparibas.com>

© BNP Paribas (2015). All rights reserved.

Edited by the Economic Research - BNP PARIBAS

Head office: 16 boulevard des Italiens - 75009 PARIS / Tél : +33 (0) 1.42.98.12.34

Head of publication : Jean Lemierre / Chief editor: William De Vijlder



BNP PARIBAS

The bank
for a changing
world