

ISSUER COMMENT

20 OCTOBER 2014

RATINGS

Spain, Government of

For. Curr. Government Bond Rating	Baa2, Positive
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Local Curr. Government Bond Rating	Baa2, Positive
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Catalunya, Generalitat de

Issuer Rating	Ba2
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Outlook	Positive
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Bonds	Ba2
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Commercial Paper--Dom Curr	NP
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Spain, Government of and Catalunya, Generalitat de

Catalunya independence debate likely to shift to greater devolution within Spain

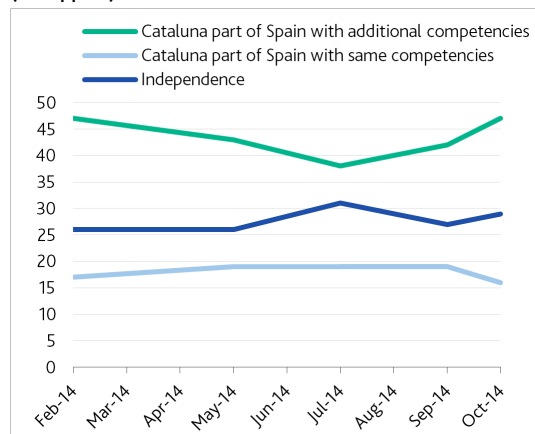
On 14 October, Catalan President Artur Mas announced that an unofficial vote on Catalunya's independence would occur on 9 November, instead of the scheduled non-binding official consultation. The Catalan government's decision to respect the Constitutional Court's suspension of the consultation process reduces near-term political uncertainty for both Catalunya (Ba2, positive) and, given the region's economic significance, Spain (Baa2, positive). However, this may also shift the debate towards a discussion of greater fiscal devolution in Spain.

After Catalunya published its 'public consultation law'¹ and call for consultation² in late September, the central government appealed to the country's Constitutional Court. President Mas's announcement follows the Constitutional Court's decision to suspend the consultation process until it reaches a decision on its constitutionality. The regional government had always declared that it would act within the realms of the law, and cited both the concern of acting legally and a lack of consensus among the political parties supporting Catalan independence aspirations as reasons for cancelling the official consultation. The unofficial vote will have no legal implications, with no official census of voters, election commission or support of public servants, and is a way to allow Catalan citizens to express their views on independence while respecting Spanish law. Although the Constitutional Court's decision timeline is unknown, we expect that it will eventually rule Catalunya's call for an official consultation as unconstitutional.

However, this decision by the Catalan government and the pending ruling by the Constitutional Court, does not resolve the debate around increased fiscal resources and devolution of powers to Catalunya. The most recent polls indicate that a majority of voters would prefer Catalunya to remain a part of Spain with greater fiscal autonomy, rather than become a fully independent state (see Exhibits 1 & 2).

Exhibit 1

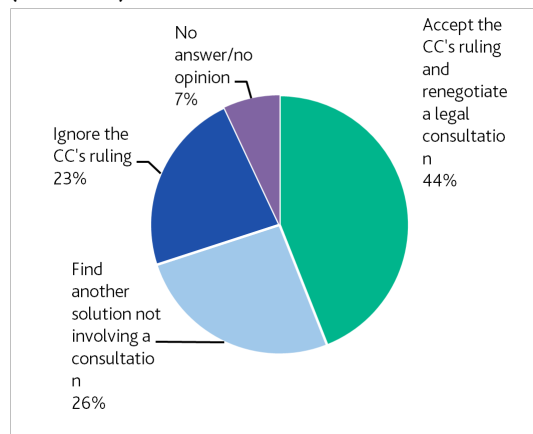
Media poll results to question of which additional option would be supported in a consultation on Catalan independence (% support)



Source: El Pais, Metroscopia, Moody's

Exhibit 2

Media poll results to question about which steps President Mas should take after the Constitutional Court's suspension of the consultation (% in favour)



Source: El Pais, Metroscopia, Moody's

While we expect negotiations to take place between the region and the central government in the coming months, we do not expect the central government to offer significant concessions to Catalunya before 2016 given the May 2015 municipal elections and national elections (which are expected by the end of 2015). As a result, the political relationship between the central government and Catalunya will remain strained, with the associated political noise and economic uncertainty continuing throughout the coming year. However, we do not believe that these tensions will have direct financial repercussions on either the central or the regional government, especially given Catalunya's importance to the Spanish economy – the region accounts for approximately 19% of Spanish GDP, 16% of the country's total population and enjoys the fourth highest GDP per capita in Spain. The political debate surrounding independence is not new and has not affected central government liquidity support to the region since 2012. As of year-end 2014, we expect that Catalunya will have received €31.3 billion from the central government since 2012 to cover its deficits, debt amortisations, and commercial debt accumulation. In 2014, we expect government loans to represent 46% of Catalunya's total debt and believe that Spain will provide Catalunya with at least €8 billion of funding via the Fondo de Liquidez Autonómico (FLA) in 2015.

The next step in Catalunya's independence aspirations is likely to be regional elections, which will likely represent the ultimate 'vote' on Catalan independence. If Mas and his party manage to run on a common platform with other pro-independence parties, enabling the coalition to win an absolute majority, the Catalan government would be likely to call early regional elections, i.e. before the end of 2016. In such an event, the region's negotiating position vis-à-vis the central government would be strong, and Catalunya would likely be able to satisfy some of its demands, particularly those related to greater fiscal resources, within the Constitution's legal possibilities. While this would likely be credit-positive for Catalunya, it has the potential to be credit-negative for the Spanish sovereign given the region's greater potential to generate revenues for the central government relative to some other Spanish regions.

If a common platform were not found among the pro-independence parties – a less likely outcome in our view – the risk of a more confrontational stance with the government would increase as these parties try to differentiate their positions from one another, which would be credit negative for both Spain and Catalunya.

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Outlook:

[Banking System Outlook: Spain, July 2014 \(169939\)](#)
[2014 Outlook – Spanish Regions, March 2014 \(166328\)](#)

Endnotes

- 1 Ley 10/2014, de 26 de septiembre, de consultas populares no referendarias y otras formas de participación ciudadana.
- 2 Decreto 129/2014, de 27 de septiembre, de convocatoria de la consulta popular no referendaria sobre el futuro político de Cataluña.

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