

# Flash Note

## Spain: politics

### Little market reaction to escalation of Catalanian dispute

Pictet Wealth Management - Asset Allocation & Macro Research | 23 October 2017

The response given by the Catalan President Carles Puigdemont to the Spanish government's ultimatum last Thursday did not provide the clarity the central government was seeking on whether or not he had declared independence.

The central government therefore has decided to invoke Article 155 of the Spanish constitution. A broad set of measures awaits approval by the Senate, which is scheduled to deliberate on Friday.

The Catalan government still has time to act. The Catalan president is facing the dilemma of whether to ask the regional parliament to vote on a declaration of unilateral independence or to call regional elections before the Senate vote. A plenary session of the Catalan parliament is scheduled for Thursday.

In the meantime, market reaction remains limited, suggesting that investors feel Catalonia risk is contained.

Just ahead of the passing of the 19 October [deadline](#) to clarify whether he had declared independence or not, Catalan president Carles Puigdemont wrote a letter to Prime Minister Mariano Rajoy saying that if Article 155 of the Spanish constitution was activated, the Catalan parliament would formally declare independence. Puigdemont's letter did not provide the clarity the central government was seeking.

As a result, for the first time since Spain embraced democracy in the late 1970s, Article 155 has been invoked by the central government. On Saturday, following an emergency Cabinet meeting, Rajoy provided concrete details of how his government plans to apply Article 155. He said that *"the government's application of the article had four main aims restoring legality in Catalonia; recovering normality and social harmony; a continuation of economic recovery and the holding of elections"*

The key points of the government plan are:

- **Catalan government & parliament:** the power to dissolve the Catalan parliament will pass to the Spanish Prime Minister Mariano Rajoy. Regional elections are to take place in the next six months or *"as soon as normality is restored"*. The central government has asked the Senate to authorise the dismissal of the Catalan president Carles Puigdemont and all his Cabinet members. They are to be substituted temporarily by the corresponding ministries in Madrid. The Generalitat (Catalan parliament) will continue to function and to be charged with administration in the region. But under Article 155, the central government reserves the right to veto any initiative of the regional parliament deemed illegal or unconstitutional.
- **Security:** the Spanish Interior Ministry will take control of the regional police, the Mossos d'Esquadra, and will relieve its current chief of his post.
- **Public radio and TV:** the responsibilities of managing Catalan public media will pass to new administrators.

Measures proposed by ruling conservative Popular Party (PP) are backed by the main opposition party, the Socialist Party (PSOE) and Cuidadanos. Together, these three parties account for 254 seats in Spain's 350-seat parliament. The set of measures outlined by Rajoy will not be applied immediately. **They still need to be approved by the Spanish Senate, the upper chamber of parliament, on 27 October.** Since the PP enjoys an

#### AUTHOR

Nadia GHARBI  
ngharbi@pictet.com  
+41 58 323 3543

Pictet Group  
Route des Acacias 60  
CH - 1211 Geneva 73  
www.pictet.com

---

absolute majority, the measures are likely to pass. But **this means the Catalan government still has time to react**. The central government has announced that application of Article 155 will be gradual and will depend on the Catalan government's actions over the coming days. The door is open "until the last moment". Measures will be discussed at the commission-level on 24-26 October, Mr. Puigdemont (or a member of his Cabinet) could present objections during such period.

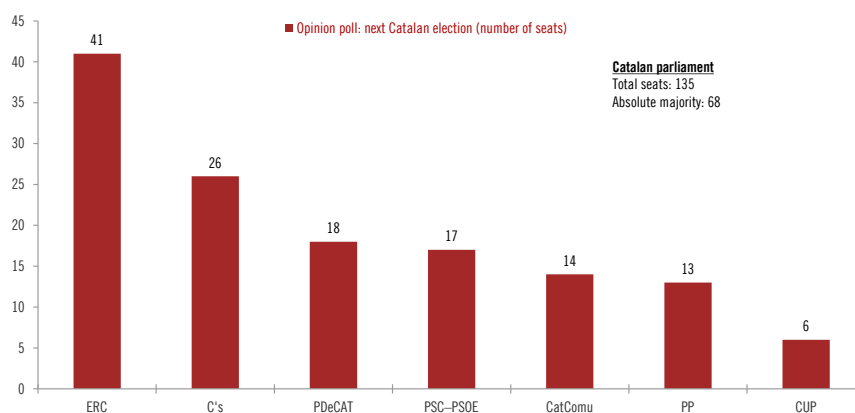
The Catalan government has scheduled a plenary session of the regional parliament on 26 October. It may ask it to vote on a declaration of unilateral independence or it could call regional elections. So far, however, the Catalan president is resisting the idea of early elections. "The option is not in the table right now", said a Catalan government spokesman on Sunday. A unilateral declaration of independence could imply further tensions and potentially more drastic measures, while calling regional elections before the Senate's formal approval would in principle avoid Article 155 package entering into force as hinted by Prime Minister Mariano Rajoy.

### What if new elections are held?

The most recent poll conducted by [NC Report/La Razon](#) (between October 16-21) shows **that pro-independence parties would lose their absolute majority if elections were held now**. According to the polls, the coalition "Junts pel Si" (which include Catalan republican left (ERC) and Democratic Party of Catalonia (PDeCAT)) would end up with 61 seats, one less than today, while far-left party Popular Unity Candidacy (CUP) would have six seats, four less than at present. Adding the seats of these three parties together gives **the pro-independence side 67, one short of an absolute majority** (See chart below). If ERC and PDeCAT go separately, pro-independence parties would get a total of 65 in total.

However, **it is not clear whether new elections would significantly change Catalonia's political landscape** as the application of Article 155 could change the poll numbers.

### Poll on Catalan voting intentions (poll conducted October 16-21, 2017)



Source: Pictet WM – AA&MR, NC Report/La Razon

---

## Limited market reaction so far

Muted market reaction to the latest developments suggests that **investors believe the risks associated with Catalonia are contained for now**. As we mentioned in [our previous Flash Note](#), we do not think that, as things stand, these risks will lead to a systemic crisis.

However, if it is prolonged, political uncertainty could end up affecting investment sentiment and confidence, depressing economic activity in Catalonia and in Spain at large. Thus, the focus will eventually shift from the political to the economic impact of Catalonia's moves to secede. For now, **there is little indication that the crisis in Catalonia has had any significant impact at the macroeconomic level in Spain**. As a result, our real GDP forecast for Spain (3.1% 2017 and 2.5% in 2018) is left unchanged.

**Notice:** This marketing communication is not intended for persons who are citizens of, domiciled or resident in, or entities registered in a country or a jurisdiction in which its distribution, publication, provision or use would violate current laws and regulations.

The information, data and analysis furnished in this document are disclosed for information purposes only. They do not amount to any type of recommendation, either general or tailored to the personal circumstances of any person. Unless specifically stated otherwise, all price information is indicative only. No entity of the Pictet Group may be held liable for them, nor do they constitute an offer or an invitation to buy, sell or subscribe to securities or other financial instruments. The information contained herein is the result neither of financial analysis within the meaning of the Swiss Bankers Association's Directives on the Independence of Financial Research, nor of investment research for the purposes of the relevant EU MiFID provisions. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness.

Except for any obligations that any entity of the Pictet Group might have towards the addressee, the addressee should consider the suitability of the transaction to individual objectives and independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences. Furthermore, the information, opinions and estimates in this document reflect an evaluation as of the date of initial publication and may be changed without notice. The Pictet Group is not under any obligation to update or keep current the information contained herein. In case this document refers to the value and income of one or more securities or financial instruments, it is based on rates from the customary sources of financial information that may fluctuate. The market value of financial instruments may vary on the basis of economic, financial or political changes, currency fluctuations, the remaining term, market conditions, the volatility and solvency of the issuer or the benchmark issuer. Some investments may not be readily realizable since the market in the securities can be illiquid. Moreover, exchange rates may have a positive or negative effect on the value, the price or the income of the securities or the related investments mentioned in this document. When investing in emerging countries, please note that the political and economic situation in those countries is significantly less stable than in industrialized countries. They are much more exposed to the risks of rapid political change and economic setbacks.

Past performance must not be considered an indicator or guarantee of future performance, and the addressees of this document are fully responsible for any investments they make. No express or implied warranty is given as to future performance. Moreover, forecasts are not a reliable indicator of future performance.

The content of this document can only be read and/or used by its addressee. The Pictet Group is not liable for the use, transmission or exploitation of the content of this document. Therefore, any form of reproduction, copying, disclosure, modification and/or publication of the content is under the sole liability of the addressee of this document, and no liability whatsoever will be incurred by the Pictet Group. The addressee of this document agrees to comply with the applicable laws and regulations in the jurisdictions where they use the information reproduced in this document.

This document is issued by Banque Pictet & Cie SA. This publication and its content may be cited provided that the source is indicated. All rights reserved. Copyright 2017. Banque Pictet & Cie SA is established in Switzerland, exclusively licensed under Swiss Law and therefore subject to the supervision of the Swiss Financial Market Supervisory Authority (FINMA).

Distributors: Banque Pictet & Cie SA, Pictet & Cie (Europe) SA