

# Flash Note

## Spain: politics

### A crucial start to the year for Catalonia

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Following December regional elections in which pro-independence parties won a majority of seats, the main challenge in Catalonia will be the formation of a new coalition government, with a busy political agenda set for January and February.

Catalan parties have until end March/early April to reach an agreement on the next regional president, failing which repeat elections may need to be called.

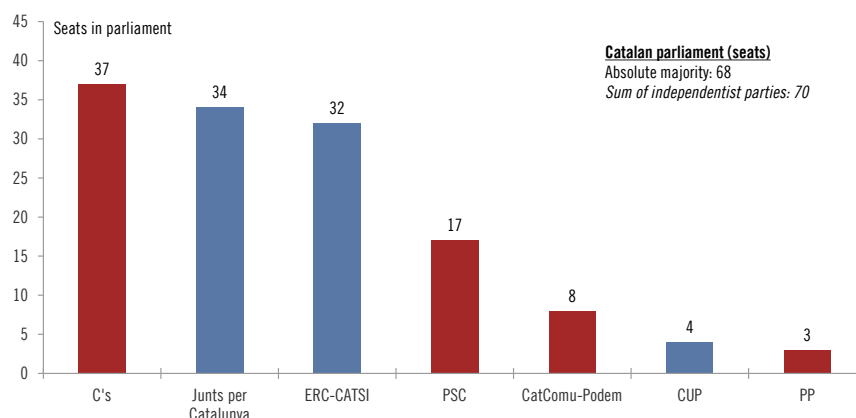
Economic indicators continue to point to strong momentum in Spain. At this stage, we see no major reason to change our forecasts of 2.5% GDP growth in 2018 for Spain (after an estimated 3.1% in 2017).

However, prolonged uncertainty could have an economic impact. As things stand, we do not think that the situation in Catalonia will lead to a systemic crisis for Europe.

With the aim of resolving the political impasse in Catalonia and ending the “exceptional measures” that saw central government take direct control of the region, Prime Minister Mariano Rajoy announced [snap elections on December 21](#). **Pro-independence parties** (in blue in the chart below) **won a majority of seats** (70 out of 135). However, it remains to be seen whether they can forge a deal that will allow them to govern. A constitutive session of the Catalan regional parliament has been called by Spanish Prime Minister Mariano Rajoy for **January 17**. According to the electoral rules, Catalan parties have until end March/ early April to reach an agreement on nominating the next regional president before repeat elections are called.

So far, muted market reaction to the latest developments suggests that investors believe the risks associated with Catalan political uncertainty are still contained. As we mentioned in [our previous Flash Notes](#), **we do not think that, as things stand, these risks will lead to a systemic crisis for Europe**.

#### Spain: parliament elections in Catalonia (December 21 results)



Source: Pictet WM - AA&MR, El Pais

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#### What was the result of the election?

The participation rate in the December election reached 82%, a record for a Catalan regional election and much higher than the 75% seen in the 2015 election. **With 47.5% of the popular vote, the three pro-independence parties** (Together for Catalonia (JuntsxCat), Catalan republican left (ERC) and far-left party Popular Unity Candidacy (CUP)) **won a majority of seats** (70

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out of 135), two more than the 68 required for a majority in parliament. The main difference from the 2015 elections was that the two biggest pro-independence parties chose to run separately this time. The JuntsxCat party of deposed regional president Carles Puigdemont did better than opinion polls had suggested, coming second with 34 seats. The more radical left-wing CUP lost many votes compared to 2015.

Among the unionist parties, **Ciudadanos came first in terms of votes (25%) and seats won (37)**. The party saw an increase of 7.5% in its share of the popular vote from 2015, translating into 12 extra seats. It is now the biggest single party in the Catalan parliament. By contrast, the Popular Party (PP) of Prime Minister Rajoy received only 4.2% of the vote and lost eight seats.

## What happens next?

With a busy political agenda set for the coming weeks, the main challenge will be the formation of a new coalition government. First, Mariano Rajoy has called a constitutive session of the regional parliament of Catalonia for **January 17** to elect a speaker. Then, parties will have 10 days (up to January 27) to propose a candidate to become the Catalan president. A first vote to elect the president could be held on **February 1**, when candidates will need to achieve an absolute majority. Should no candidate achieve an absolute majority, a second vote has to take place within 48 hours, when a simple majority will be sufficient to win. However, if no candidate is elected within two months of the first vote, the Catalan **parliament will have to be dissolved again and new regional elections called. These could take place as early as end March/early April.**

Although the pro-independence parties have a combined majority in the regional parliament (70 out of 135 seats), this is for the time being, more a 'theoretical' than a real majority given the differences in strategy. Moreover, there are potential legal obstacles to several elected MPs taking their seats (eight, including Carles Puigdemont, are either in jail awaiting trial or have fled abroad). This week, Pro-independence parties have agreed a deal to re-elect Carles Puigdemont as the region's president. However, it is still unclear how the deal will work in practice.

## What is the economic impact of the Catalan crisis?

**The economic impact of the current political turmoil for the Spanish economy is difficult to measure**, as growth was already expected to slow somewhat this year. So far, most companies that have moved their legal headquarters out of the region have relocated to other regions within Spain, and economic indicators continue to point to strong momentum. At this stage, **we see no major reason to change our forecast of 2.5% GDP growth for Spain in 2018 (after 3.1% in 2017). However, prolonged uncertainty could have an economic impact** and rating agencies could prove reluctant to upgrade Spain further before there is a clearer picture of how the Catalan crisis will be resolved.

So far, muted market reaction to the latest developments suggests that investors believe the risks associated with Catalan political uncertainty are still contained. As we mentioned in our [previous Flash Notes](#), we do not think that, as things stand, these risks will lead to a systemic crisis.