



R&R Weekly Column
By Brunello Rosa



Catalonia: An Open European Question

On Thursday 21 December, more than 5 million Catalans will go to the polls and elect their regional Parliament, which was dissolved after Madrid took over the rule of the region, following the application of article 155 of the Constitution on 28 October. As discussed in [our recent paper](#), the Spanish government chose a day in the middle of the week to hold the election in order to increase the participation of the “silent” majority of the Catalans, which is supposedly against independence; at the same time hoping for a reduced mobilisation of the pro-independence supporters, already hit by the incarceration of the of the pro-independence leaders.

So far, the polls suggested that the pro-independence sentiment remains strong in the region. ERC (the pro-independence, left-wing party led by Oriol Junqueras, now in prison) is neck and neck with the fiercely anti-independent party Ciudadanos (Cs), founded in Catalonia by Albert Rivera, now in government with Mariano Rajoy’s Popular Party (PP) in Madrid. Carles Puigdemont is leading (from “exile”), the new list JuntsxCat, which is running a pro-independence platform, although likely to be less radical than the one that led to the unilateral proclamation of independence, in October. JuntsxCat is running third in the polls, behind ERC and Cs. The heterogenous front of pro-independence parties constituted by ERC, JuntsxCat and CUP is slightly ahead of the anti-independence front, with PP, Cs and Socialist Party, with both blocks polling around 43-45%. In all this, CatComu’-Podem (the local declination of Podemos), polling around 9%, might end up being the eventual kingmaker. As we have discussed in our publications, if it joined forces with ERC and the pro-independence movement, it might push for the adoption of a Scotland-type independence referendum, i.e. a legitimate consultation approved by Madrid. If instead Podemos chose the side of the “unionist” front, it would be extremely complicated for the pro-independence movement to make progress with its agenda.


In any case, as we warned in our initial [working paper](#), the issue of Catalan independence will not be settled for some time, and its economic repercussions will continue to be felt across the board. The impact on the Catalan economy of the unilateral proclamation of independence has been indubitably negative, with thousands of companies forced to relocate their registered office outside Catalonia, to protect themselves against a potential escalation of the tensions. But somehow the independence “dreamland” is still considered attractive by a vast portion of the electorate, with an electoral law that favours the rural areas and penalises the cities.

The week after the EU Council gave green light to the [second phase of “Brexit” negotiations](#) and [Corsica saw the convincing victory of the pro-autonomy front](#), Catalan independence returns to the fore, to show once again that the institutional setting of regions within the EU is a pan-European issue. [We have argued](#) that the creation of sub-national or trans-national regions as the center of the political decision-making process is one of the key areas in which the EU needs to make progress, if it wants to survive in the long run. This week’s election will be a clear reminder of this urgent need.


(*with the support of Renata Bossini)

Our Recent Publications

 [Preview Dec. 2017: Riksbank to Extend Monetary Easing](#)
by Brunello Rosa and Nouriel Roubini, 15 December 2017

 [Fed Review Dec. 2017: Another Dovish Hike, Caution Ahead](#)
By Brunello Rosa, 13 December 2017

 [Fed Preview: Cautious Tightening After The December Hike](#)
By Brunello Rosa and Nouriel Roubini, 11 December 2017

 [Brexit vs Grexit: Why Negotiations Will Remain Bumpy](#)
by Brunello Rosa, 8 December 2017



The Week Ahead

US - Funding extension for the US federal budget and tax bill. In the US, the GOP plans to introduce a second short-term funding extension—the current one expires on December 22—to keep the government funded through January 19, buying negotiators more time to reach a longer-term deal. The GOP expects to send the bill to Congress, for a final approval by year-end, before the new democrat senator Doug Jones is sworn in (when the GOP lead will decline to a mere 51-49). If approved, the fiscal reform could marginally lift growth and USD, but will increase the fiscal deficit from 3.5% of GDP in 2017 to 4.1% in 2019, according to EIU.

Europe - On December 18, the EU will publish inflation data for November (c: 1.5%; p: 1.5%). In Sweden, the Riksbank will announce its policy decision on Wednesday 20 December.

Asia – BOJ's monetary policy decision. On December 21, the BoJ will announce its policy rate decision (c: -0.1%; p: -0.1%).

The Quarter Ahead

In the EZ, economic recovery is likely to last. The political impasse in Germany is unlikely to affect the economy in the short run. Inflation will remain subdued and the ECB will continue implementing its asset-purchase program.

In the GCC, the OPEC-led oil production cuts and fiscal austerity will continue to take a toll on GDP growth. GCC financial markets could become more volatile, and bonds yields pick up, but will eventually stabilize and currency pegs will hold. Most central banks in the GCC will continue to track the Fed's policy moves.

Saudi Arabia's political and economic challenges will keep testing the region, combining austerity—the 80% hike in gas next January—and spending—a USD19.2bn stimulus to boost private sector growth approved days ago. Tensions with Iran will reach the level of “cold war”, but military conflict will be avoided. Oil supply constraints will maintain prices elevated. In Q1-2018—once the impact of recent disruptions in the US, UK, Venezuela and Iraq, which pushed prices to a two-and-a-half-year high of USD65 per barrel—dissipate, the Opec agreement extension and a firm demand outlook will maintain prices in the USD 55-60 per barrel.

Final 2017 numbers will show a marked decline in EM capital outflows which are expected to reach USD55bn, just an eighth of the total recorded in 2016. This trend is driven largely by a reduction in outflows from China (USD8bn per month in 2017, compared to 53 in 2016) as investors' fears of depreciation and tighter capital controls subsided.

Last Week's Review

In the US, the Fed's FOMC raised short-term interest rates by 25bps, bringing the “Fed Funds target range” to 1.25-1.50%. The Fed revised its: 1) 2018 GDP growth forecast up to 2.5% (p: 2.1%), as the economy exhibits robust momentum; and 2) *expected* inflation down to 1.7%-1.9% (p: 1.8%-2.0%).

In the EZ, the ECB announced that: a) the policy rate will remain at 0.0% until “*well past*” the end of QE; and QE could be extended and/or expanded beyond September 2018. The 28 heads of EU governments met to discuss the: a) completion of the banking union; b) expansion of the EFSF (EZ's bail-out fund); and c) Brexit negotiation strategy, among other issues. In the UK, the BoE left policy rates at 0.5%.

In Turkey, the CBT hiked its policy rate by only 50 bps (c: 100bps).

In Russia, the CBR cut interest rates more than expected. The 50bps cut (c: 25bps) to 7.75% was motivated by: a) November's record-low inflation reading (2.5%; p: 2.7%); and b) the extension of the Opec deal, which is expected to support the RUB.

In the GCC, Saudi Arabia, the UAE, Qatar and Bahrain CBs raised their key benchmark interest rates by 25 bps, following the Fed's decision. In Kuwait, the CBK kept its key policy rate unchanged (at 2.75%).

Pablo Gallego Cuervo and Renata Bossini contributed to this Viewsletter.

The picture in the front page comes from [this website](#).



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Abbreviations, Acronyms and Definitions

<i>bn</i>	Billion	<i>GDP</i>	Gross domestic product
<i>BoE</i>	Bank of England	<i>GOP</i>	Grand Old Party (US Republican Party)
<i>BoJ</i>	Bank of Japan	<i>IEA</i>	International Energy Agency
<i>bps</i>	Basis points	<i>IMF</i>	International Monetary Fund
<i>c</i>	Consensus	<i>IPO</i>	Initial public offering
<i>CB</i>	Central bank	<i>m-o-m</i>	Month-on-month
<i>CBK</i>	Central Bank of Kuwait	<i>Nafta</i>	North American Free Trade Agreement
<i>CBR</i>	Central Bank of the Russian Federation	<i>OECD</i>	The Org. for Economic Co-operation and Development
<i>CBT</i>	Central Bank of the Republic of Turkey	<i>Opec</i>	Organization of Petroleum Exporting Countries
<i>CPI</i>	Consumer Price Index	<i>p</i>	Previous
<i>DFMGI</i>	Dubai Financial Market General Index	<i>PM</i>	Prime minister
<i>DJIA</i>	Dow Jones Industrial Average Index	<i>PMI</i>	Purchasing managers' index
<i>d-o-d</i>	Day-on-day	<i>QE</i>	Quantitative easing
<i>EC</i>	European Council	<i>q-o-q</i>	Quarter on quarter
<i>ECB</i>	European Central Bank	<i>RUB</i>	Russian Ruble
<i>EFSF</i>	European Financial Stability Facility	<i>SOE</i>	State-owned enterprise
<i>EM</i>	Emerging Markets	<i>tn</i>	Trillion
<i>EP</i>	European Parliament	<i>TRY</i>	Turkish Lira
<i>EUR</i>	Euro	<i>UAE</i>	United Arab Emirates
<i>EZ</i>	Eurozone	<i>UK</i>	United Kingdom
<i>Fed</i>	US Federal Reserve	<i>US</i>	United States
<i>FOMC</i>	US Federal Open Market Committee	<i>USD</i>	United States Dollar
<i>FRB</i>	US Federal Reserve Board	<i>USD/bbl.</i>	USD per barrel
<i>FX</i>	Foreign exchange	<i>y-o-y</i>	Year-on-year
<i>GCC</i>	Gulf Cooperation Council	<i>y-t-d</i>	Year-to-date
<i>GBP</i>	British Pound	<i>w-o-w</i>	Week-on-week