

Comissió d'Economia Catalana

Col·legi d'Economistes de Catalunya

## AN ESTIMATION OF THE SOVEREIGN RISK OF A CATALAN STATE

### Executive Summary

**“A Catalan State would enjoy a credit rating well above the current one”**

- ❖ **This conclusion, among others, is drawn from the study “An Estimation of the Sovereign Risk of a Catalan State”**
- ❖ **A sovereign Catalonia would not face problems obtaining financing in the international financial markets**
- ❖ **Catalonia’s credit rating would rank higher than those of Spain and the Basque Country**

The study “**An Estimation of the Sovereign Risk of a Catalan State**” was presented on January 28, 2015, at the professional society of the Catalan economists, within the framework of the Catalan Economy Commission. The authors of the study, **Joan Elias** and **Joan Maria Mateu**, economists, have developed an **evaluation of the credit rating of a hypothetical independent Catalonia**.

To do so, they began with the **methodology applied by the major credit rating agencies**. The sovereign risk of an independent state is part of a more global one, such as country risk, and is incurred by international creditors that lend money to an independent state or to a state-guaranteed entity. According to S&P, ratings range from AAA to CC, with many intermediate levels. **Below BBB- is considered excessive, what are called "junk bonds"**.

Currently **the securities issued by the Government of Catalonia are qualified as BB, that is, junk bonds**. This means that **Catalonia has no access to financing in the international financial markets**. According to the authors of the study, "if Catalonia enjoyed a similar fiscal arrangement as that of the Basque Country or Navarre, not only would it not have financial problems of any sort, but it would surely enjoy a rating at least as high as

that of these autonomous communities". Currently, Catalonia depends financially on the rules regarding regional funding dictated by the Spanish Government and the discretionary fund transfers received from the Spanish Government through mechanisms like the FLA (Autonomic Liquidity Fund) or PPP (Suppliers Payment Plan). **The Government of Catalonia has hardly any leeway in terms of funding.**

Elias and Mateu estimate that **a sovereign Catalonia would be allocated a sovereign rating of A+, seven notches above the current one.** The hypothesis is that the **transition to independence will be ordered and negotiated with the Spanish state.** From there, using available statistical sources, they carry out an analysis similar to the one that a credit rating agency would develop to assess the credit quality of the issuer institution. They examine **five score areas:**

### **1. STATE STRUCTURES**

**Catalonia is sufficiently prepared to achieve sovereignty and guarantees full compliance with the minimum requirements to enjoy a satisfactory score.** Already it has an efficient, although incomplete, system of state structures. It will need to complete these structures to manage the affairs of public responsibility efficiently. On the other hand, it has a democratically elected parliament and a government that manages public functions. The administration of the Government of Catalonia is fully consolidated and organized.

### **2. ECONOMIC STRUCTURE**

**The country's economic potential is unquestionable.** The Catalan per capita income stands at the high side of the European range and the benefits of fiscal sovereignty would strengthen it. The Catalan economy is sufficiently diversified and it shows a stable growth trend beyond the global crisis of recent years.

### **3. FOREIGN SECTOR**

**The country's purchasing power and capacity for international payment are expected to improve with independence.** Statistical limitations (lack of balance of payments and external position data) complicate the analysis of this variable. However, the authors consider that Catalonia's proven export capacity and the advantage of not having to transfer the current volume of resources to the rest of the Spanish state would be an improvement compared to the current level.

### **4. PUBLIC FINANCES**

**An independent Catalonia would have a government budget surplus and a public debt below the European average.** The annual fiscal gain due to independence is estimated to be at least 5% of GDP, thanks to the disappearance of the fiscal deficit with the Spanish state. Moreover, adding the Catalan debt (regional and local) to that which is taken on from the Spanish central government, results in a public debt of around 74% of GDP.

### **5. MONETARY POLICY**

**The continuity of Catalonia in the euro area would ensure a high score in the section that evaluates the suitability and flexibility of monetary policy.** The authors start from the premise that, at least after a transitional period, Catalonia will form part of the euro zone. Although there would be other options, this is considered the most likely.

Credit rating	Sovereign risk
...	
A+	Catalonia (independent)
A	
A-	Basque Country, Navarre
BBB+	
BBB	Spain
BBB-	
BB+	
BB	Catalonia (at present)
...	

## For more information:

Joan Elias  
Graduate in Economics and Business  
by the Universitat Autònoma de Barcelona  
[jelias@economistes.com](mailto:jelias@economistes.com)  
Tel. 696 45 11 27

Joan Maria Mateu  
Graduate in Economics and Business  
by the Universitat de Barcelona  
[jmmateu1953@gmail.com](mailto:jmmateu1953@gmail.com)  
Tel. 670 58 76 40