

TRIBUNE

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# What's with low yields?

I could not imagine a better time for Catalan independence. Besides massive popular support, besides the unconditional backing of civil society, and the centrality of the issue in the political arena, the global economic situation could not be more favourable for independence.

In the United States the economy has started to slowly come out of painful years of recession, yet the fundamentals are still not strong. Unfortunately, Europe is nowhere near following suit.

The old continent is lacking growth, exhibits massive core-periphery divergences, and is being spiralled into Japanese-style deflation. From the beginning of the 2008 crisis, central banks took centre stage in catalysing economic growth; havoc was somewhat avoided at the expense of ultra-low yields.

Both in the US and Europe, yields dropped in a matter of months. US ten-year Treasuries fell from 4-4.5% to 2.5% and have stayed well below 3% until very recently. Despite the forecasted rate hike in 2015, many voices predict a "New Neutral", in which rates will stay low for a very long time.

The story is very similar in Europe, especially at its core. In the periphery the risk premium exploded in the early years and continued to expand as noise grew and the Troika became ambiguous about economic plans. However, since 2012, risk premium diminished spectacularly, dropping from over 600 bps to barely 100 bps. Economic and fiscal consolidation in Europe hints towards a degree of rate convergence. If the trend continues, Europe will also maintain low yields for a long time. In short, the good fixed income years may be over.

The low-yield global situation is great for Catalonia. In the event of independence, the government would be in need of liquidity – and fast. Collateral would

be available yet the lack of credit history as a new country may create some uncertainties at first. Therefore, the low-yield global environment means now is the best time for independence. Catalonia would be able to borrow at considerably low rates, thus repaying its debt much faster and much less leveraged than ever before.

Indonesia is currently issuing debt maturing in six years at 2.3% in EUR, with a rating of BB+. Turkey, potentially the most pro-European emerging market, has debt maturing in April 2023 with a yield of about 2.3%, with coupon 4.125%, and BBB- rating. Similarly, the Catalan company Almirall has a bond maturing 2021 at 106.5 EUR, with a yield of 2.69%. What do they have in common? Either barely investment grade or high yield, mid to long maturities, and issuance in 2014. One can easily analyse the Catalan prospects versus the examples above and quickly arrive at the conclusion that whatever the independence situation, Catalan prospects are better. Independence may not be only desirable, but also exhibit the lowest historical opportunity cost for debt, at least. Low yields can and will undoubtedly foster Catalan independence.

Catalonia is and would be a solvent country. Furthermore, Catalonia has never defaulted on its debt, it has enough leverage and collateral to offer sufficient back-up in the event of severe strains, and will certainly be committed to a no-default policy. Catalonia will be able to issue debt at low levels, both due to the global macroeconomic environment and its capacity to be an economic power. Finally, the possibility to issue such debt at low rates will only be beneficial for Catalonia, as the country will be able to borrow cheaper and pose less risk for investors. One could not think of a better time for Catalan independence.

GALLERY

**TERRY PARRIS**  
Writer

# Concepts

The dictionary meaning of 'concept' is an idea of a class of objects ; general notion (eg. the concept of evolution). A New Year visit to neighbours, here in the foothills of the Pyrenees, has shown me that my concept of them has been false.

I had a concept of farms and farmers as being static, fixed, that they had occupied their land for generations, never moved... . It was a 'townies' view, although I've lived with my neighbours for more than 30 years. Talking over coffee and Christmas *torró* I heard that out of five homesteads, only one of the families had lived there for more than 75 years, but the other *masovers* (tenant farmers), who were subject to contract, had lived there for only 24 years or less.

Fifty years ago, winter in the rural areas could be far from idyllic, especially for tenant farmers. They normally had a one-year contract, and they would know by August if they had to leave by the November 1. If they had not left by then, they were either asked to leave through the door, or were thrown out through the 'window' on the December 31, 'Sant Silvestre'. A common Catalan saying is: "Per Sant Silvestre, o per la porta o per la finestra!" Most of my neighbours were not owners but *masovers*. Some had bought their farms after some years from the owners, who generally lived in Vic, Olot or Barcelona. This knowledge did not spoil the friendliness and welcome of the visits; the conversation continued about family, weather, and crops for February...

Yet it did make me open my mind to accept new facts. Therefore, if my concept of something so close to home about my neighbours is mistaken, so that it appears that things are not, in many cases, what they appear to be, how many other wrong concepts in this New Year might we have that could be false? Our concepts seem worth investigating!

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**"We will need a clear majority for the creation of a new state"** Artur Mas, President of Catalonia

The time for massive demonstration on the streets is over in Catalonia. Now it's time to show the extent of the independence movement at the polling stations, next September 27