

Catalonia, a new euro area member state

A key question in the debate on Catalonia's sovereignty is how it fits into the Eurozone and continued use of the euro. This article explores the options. Any country in the world can use the euro if it so wishes. An independent Catalonia would have two options: (1) formal membership in the EU; or (2) (in the unlikely event of EU exclusion) by signing a monetary agreement, like Andorra or Monaco.

One question is: would Catalonia stay in the EU? As this scenario is not regulated in EU treaties, a clear answer is not possible. Many experts think the current EU neutrality would translate into common sense in the case of an independent Catalonia. Everything points to a problem of temporal inconsistency: before Catalans cast their vote on independence, the EU would influence it negatively. Yet, if indepen-

dence were ratified by the majority, EU interest would shift to finding a solution. Catalonia has been a EU member (and net contributor) for almost 30 years, it has a strategic location, a competitive economy and an important financial sector. So, EU membership (either automatic or after negotiation) is the most realistic outcome for continued use of the euro.

Yet, what would happen in the scenario of EU exclusion? Even then, the use of the euro would be guaranteed. In fact, the optimal choice would be to sign a monetary agreement with the EU (which Spain could not veto), to guarantee: (i) issuance of an amount of euro banknotes and coins; (ii) access to ECB credit and the European payments infrastructure for banks in Catalonia; (ii) eligibility of the financial securities issued in Catalonia as collateral by the

ECB; and (iii) participation in the Banking Union. Much of this is already covered in the monetary agreements that the EU has signed with the four microstates.

Whatever the scenario, Catalonia would need its own central bank to take responsibility for the implementation of ECB monetary policy and banking supervision. The creation of this institution would generate net financial benefits (approx. 500 million euros annually), without an increase in costs for the Catalan economy. These net benefits would mainly derive from the distribution of monetary income by the ECB to all central banks in the Eurosystem and from the funds originated from the minimum reserves. Moreover, the creation of specialised jobs would imply higher fiscal revenue and improved knowledge for the Catalan economy.