

Are the decisions of the European Central Bank politically motivated?

At the beginning of last April an article appeared on the financial blog Finanzmarktwelt based in Hamburg entitled "The ECB makes policy against the independence of Catalonia: bonds without access to Quantitative Easing" (translation from German). This article was published shortly after it became known that the European Central Bank had excluded the bonds of the government of Catalonia as collateral for obtaining loans for liquidity purposes.

The writer expressed surprise that the ECB could not buy bonds of the government of Catalonia when it could buy that of regions such as Andalusia, that he considered a much weaker economy. At the same time he recognized that Catalonia is by far the Spanish region with the strongest economy. Therefore, he concluded that the ECB's decision to exclude the Catalan bonds from the eligible list was due to a policy against the independence of Catalonia. He also said that it was not the first time that the ECB acted this way, in contradiction with its status of independence.

Is the writer right? I do not think he is. Rather, the decision of the ECB is technical, considering the fact that all credit rating agencies now consider that the Generalitat bonds have a high yield rating and so have no investment grade rating. You might ask why. The current credit rating of the Catalan government bonds is based on the assumption of the status quo, i.e., the

continuance of the financial stifling of the Catalan government by the Spanish State.

On the other hand, who does make policy against the independence of Catalonia is the Spanish government. This has led some people to allege pressure from the Spanish government on credit rating agencies during the process for independence movement in order to lower the credit rating of Catalan bonds.

There is no evidence of this, but in any

case, what would Catalonia's credit rating be if it were an independent country? Obviously the situation would be very different from today because the government of Catalonia could have all the taxes paid by the Catalans and the fiscal deficit with Spain, that amounts to 8% of GDP on annual average would disappear. In addition, being able to spend that amount inside Catalonia itself would push forward economic activity and employment. The

growth potential would also increase with an autonomous economic policy. Thus, the gross domestic product (GDP) would rise dramatically, the deficit would become a surplus and public debt could gradually decrease in relation to GDP. An excellent paper by economists J. Elias and J. M. Mateu published a year ago placed the credit rating of an independent Catalonia clearly in the investment grade zone. This is consistent with the fact that agencies recognise that if Catalonia were not part of Spain, the economic position of Spain would weaken and consequently so the credit rating of the Kingdom of Spain. Therefore, the answer to the first question would be: yes, the European Central Bank makes... monetary policy. I could also add that with respect to Catalonia, independence would bring about an important change in its credit rating, and then surely the ECB would have no problem in accepting the Catalan government bonds in its monetary policy operations.



A Euro symbol projected onto the European Central Bank (ECB) in Frankfurt./ EFE



"The past years have been the most difficult in the history of our union, but I always remember what my father used to tell me – 'What does not kill you makes you stronger'." Donald Tusk, European Council president

Let's hope Tusk's father was right, because with the UK voting to leave the EU, he and his colleagues are facing an even more challenging time in the coming years. Apart from Brexit, there is the ongoing refugee crisis and implementing banking union, among other issues.