FALSE STABILITY

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In mid-July, one of the largest credit rating agencies, Fitch, upgraded the Autonomous Community of Catalonia's long-term debt rating by two notches to make it investment grade, suitable for institutional investors. In 2015, Fitch had set it as high yield. This was hailed as a big event by some political and social agents, but is it really that good news?

The Fitch agency explained the upgrade in the credit rating of the debt of Catalonia as a result of improved relations between the governments of Catalonia and Spain. In fact, in November 2015, when the rating was downgraded to high yield, the reason was the lack of cooperation between these governments, according to the same agency.

In other words, beyond economic reasons, if the government of Catalonia has not been able to finance its debt in the international markets and has depended on different facilities settled by the Spanish state, its main creditor, it has been essentially for political reasons, as the agency acknowledges. This is corroborated by the fact that during the same period the credit rating of Catalonia's debt has been below that of other autonomous communities in Spain with less strong economies, and which had, for example, much higher unemployment rates.

However, the underfunding of the government of Catalonia has a long history. In 1985, the Catalan Minister of Economy and Finance, Ramon Trias Fargas, already reported that the regional funding system was intended to suffocate the finances of Catalonia as a tool for political control.

In fact, in 2015 and 2016, a couple of excellent papers were published that used very rigorous methods in order to determine what Catalonia's credit rating would be if it were to be an independent state. They agreed that the rating would be clearly investment grade and above that of the Kingdom of Spain. Since the proclamation of the Catalan Republic on October 27, 2017 was not effective due to repression by Spain, the accuracy of these forecasts could not be verified.

Nevertheless, although the detailed explanations in those papers fall beyond the remit of this article, it is not very difficult to understand why this would be the case. The size of the Catalan economy is comparable and even higher than that of several countries in the European Union with a good credit rating. But more importantly, if the Catalan government controlled all the taxes collected in Catalonia, it would not have treasury problems, because the huge fiscal deficit with Spain of 8% on average per year over GDP, more than 17 billion euros, would disappear. Public spending would boost the Catalan economy. Likewise, the possibility of Catalonia having its own economic policy and not a colonial one now would also greatly contribute to improving the Catalan economy. The jobless rate would fall sharply, and there would be no public or foreign deficits if an appropriate economic policy were implemented.

The funding of the Catalan government is of interest to the citizens who live in Catalonia, as revenues determine the quality of public services. That the Catalan government might finance its debt in the international markets is positive news, whereas the continuity of the regional funding system is not, since it represents the suffocation of Catalonia's finances as another tool of colonial political control. The only valid solution for the real improvement of Catalonia's public finances is the achievement of independence, as voted by the majority of the Catalan people in the referendum of four years ago.

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