
1. EXECUTIVE SUMMARY



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Economically, secession can be motivated by several factors that have been documented in the literature. These can range from differences in policy preferences and, more generally, heterogeneity, the variation in the efficiency of redistribution and mutual insurance, and prospects for economies of scale in public-goods provision to the inter-regional differences in taxation effort and public-finance benefits of large jurisdictions versus the costs of political heterogeneity.

Till today, since its inception, the European Union and individual member states did not experience secession movements within its frontiers. 2014 was marked by massive mobilisations in Scotland and Catalonia, respectively seeking to secede from the UK and Spain. The result of the Scottish referendum rejected the separation from the UK while in Catalonia, political and legal quarrels continue with the government of Spain.

Several scenarios for future development of Catalonia with the rest of Spain and with the EU are simulated and assessed in a horizon 2030 in this study.

The “business as usual” scenario develops on a path where policies and trends observed in the recent past in Catalonia, Spain and the EU continue to prevail to 2030. Catalonia remains an autonomous community within Spain. Fiscal imbalances continue to be recorded up to 2030, thus Catalonia continues to record fiscal deficits similar to those recorded over the last years (8% of GDP).

Alternative options entail **changing the statu-quo of the relationship between Catalonia and Spain and/or of the whole European Union.**

As for the former, there are two possibilities: a negotiated independence process leading to a smooth transition of Catalonia from being an autonomous community of Spain – on the same legal basis of the other communities in Spain – to become a new EU member state, or a unilateral process – not negotiated and not agreed with the government of Spain – leading to the secession of Catalonia from Spain. The unilateral secession

may lead in practice to a discontinuity of EU membership for Catalonia, as the government of Spain will likely use its powers to veto any formal recognition of the new Catalonia state from the European Union.

As for the latter, a whole reform of the European Union is possible, pushed by factors that are obviously beyond the control of Spain and Catalonia. There are again two possibilities, i.e. that Catalonia contributes to the whole European Union reform as a new member state from within the Union itself – in case of a negotiated independence agreed with the government of Spain – or as a region of Spain with greater fiscal autonomy than today. Let guess in the latter case a form of autonomy for Catalonia analogue to that experienced currently by the Basque region – and therefore a greater influence on some specific regional matters (e.g. the EU cohesion policy where the contribution of Catalonia as wealthier region of Europe could be augmented). Finally, a last eventuality is for Catalonia to leave the EU after unilateral secession – discontinuity – and then influence from outside the process of EU reform, reducing among other things the veto powers of Spain or other member states to Catalonia's re-admission in the new EU.

These future options are assessed with a scenario building methodology drawing on the combination of **desk research, foresight qualitative and quantitative analyses** and **policy implications and recommendations**.

In view of the macro economic assessment of the scenarios of Catalonia as an independent state under mutual agreement or unilateral secession assumptions in horizon 2030, the study points to the macro-economic insustainability of the status-quo scenario from growth and employment perspectives due to the high and sustained deficit of Catalonia.

In the short run uncertainty, high interest rates and a volatile investment environment triggered by the decision to secede is found to slow the Catalan GDP growth rate; the effect is more pronounced if the decision to secede is unilateral. However the structure of the Catalan economy and the pursuit of fiscal policy towards a balanced public budget can deliver higher than the reference GDP and employment growth rates, once the transition period to sovereignty is over.

The overall net effect from secession on the Catalan economy is the result of a multitude of short and long run adjustments with frequently opposing effects. The short-term effects stem from the positive changes in fiscal imbalances, improved domestic production and negative changes owing to uncertainty and risk factors that are difficult to quantify with firmness. The long term effects which rely largely on the capacity of the economy to adapt via increasing infrastructure capacity, which increases in turn economy-wide productivity and competitiveness and effective public spending, while reducing uncertainty due to the strong economic fundamentals of the Catalan economy.

As expected Catalonia benefits more under mutual agreement on secession as the lower uncertainties and risks associated with secession in this case allow for a faster recovery of the economy from the shock of independence from Spain.

These conclusions favor a scenario for secession under mutual agreement between Catalonia and Spain and an orderly planning towards resolution as opposing to a scenario of unilateral secession. It thus reduces any uncertainty and risks which effects are detrimental to all parties.

The scenarios for cooperation of the new Catalan state with the European Union in its present institutional setting (status-quo), including forms of permanence or re-accession to the EU as well as possibilities for opting out and establishing new agreements with the EU from outside have been extensively discussed. Undoubtedly, options and possible legal procedures underpinning the mutual agreement scenario between both entities are equally preferred as it leads to smooth transition towards a new equilibrium.

A more long-term prospective normative scenario of European Union reform would change the game for both Spain and Catalonia negotiations. Such a scenario delineates schematically the evolution towards a desirable future, with the transformation of the Eurozone into a truly political and fiscal union, the "European Political Union (EPU)". This is assumed to unfold under the pressure of disruptive economic and geopolitical dynamics, of which we see already today several signals. In such new context, Catalonia could achieve the status of an independent Member State of the EPU either under the mutual agreement scenario or the unilateral scenario. However such a prospective analysis might be dismissed if the negotiations between Catalonia and Spain would resume in the short run.

