

At the end of September, in the context of the analysis of the risks to the macroeconomic projections for the Spanish economy published at the time, the Banco de España highlighted that the political tensions in Catalonia might potentially affect agents' confidence and their spending decisions and financing conditions.¹ Subsequently, on 11 November, various hypothetical scenarios were put forward in the *Financial Stability Report*,² based on historical episodes in which significant increases in uncertainty were observed, incorporating various assumptions about the intensity and duration of the current bout of political tension in the region. In particular, the first scenario assumed a temporary and limited increase in uncertainty, which was predicted to cause a cumulative loss of GDP of 0.3 pp up to the end of 2019. A scenario of more intense and prolonged uncertainty was forecast to result in a substantially greater loss of activity.³ More recently, in the projections published on 15 December,⁴ the baseline scenario

factored in the impact of the current political tension, drawing on the latest economic data and the values of the uncertainty indicators on the closing date of the report (30 November), with the impact being in line with the first of the scenarios alluded to above, in which it is of a transitory nature and short lived. However, it was pointed out that the final impact of this risk factor on the Spanish economy as a whole would depend on the magnitude and duration of the uncertainty.

This box reviews the available evidence regarding the trend in the last quarter of the year of a series of financial, economic and uncertainty indicators from the standpoint of the Spanish economy as a whole and of the most important regional economies.

As regards the financial markets, early October saw an intensification of stock-market volatility and the Spanish stock market performed less favourably than the main European markets. This was due, in particular, to the negative trend in bank share prices, especially in the case of banks headquartered in Catalonia. The situation subsequently partly returned to normal (Charts 1 and 2). The volatility in sovereign debt markets, on the other hand, has been much lower, initially registering a widening spread against the 10-year German Bund and a narrowing of the spread against Italian bonds. These changes were small, however, and subsequently reversed, such that in early November levels were again similar to those observed before the onset of the current bout of political tension.

The economic uncertainty indicators rose sharply in October, dropping back somewhat in November (see Charts 3 and 4 for the specific case of the indicators measuring uncertainty in the financial markets and uncertainty about the economic situation and economic policies). If December's level remains the same as that observed in the first two months of the quarter, the average for these indicators over the quarter as a whole will be similar to that in the more favourable of the two scenarios in the box on the

1 See [Macroeconomic projections for the Spanish economy \(2017-2019\)](#).

2 See Box 1.1 ("The Economic impact of uncertainty arising from political tensions in Catalonia") in the Banco de España's November 2017 Financial Stability Report. For a description of the econometric models measuring how economic activity and the components of demand respond to fluctuations in uncertainty, see M. Gil, J. J. Pérez and A. Urtasun, "Macroeconomic uncertainty: measurement and impact on the Spanish economy", Economic Bulletin, 1/2017.

3 For an analysis of the potential impacts of a scenario of a more abrupt and longer-lasting increase in political uncertainty in Catalonia, also see Box 1.1 ("The Economic impact of uncertainty arising from political tensions in Catalonia") in the Banco de España's November 2017 Financial Stability Report. Specifically, this box simulates a scenario assuming the increase in uncertainty in the fourth quarter of the year to replicate the equivalent to the uncertainty registered in the most intense previous episode and to subsequently decline linearly until it disappears at the end of 2019. In this case the estimated negative effect on GDP would be slightly more than 2.5 pp between end-2017 and 2019.

4 See [Macroeconomic projections for the Spanish economy \(2017-2020\)](#): the Banco de España's contribution to the Eurosystem's December 2017 joint forecasting exercise.

Chart 1
GENERAL STOCK-MARKET INDICES

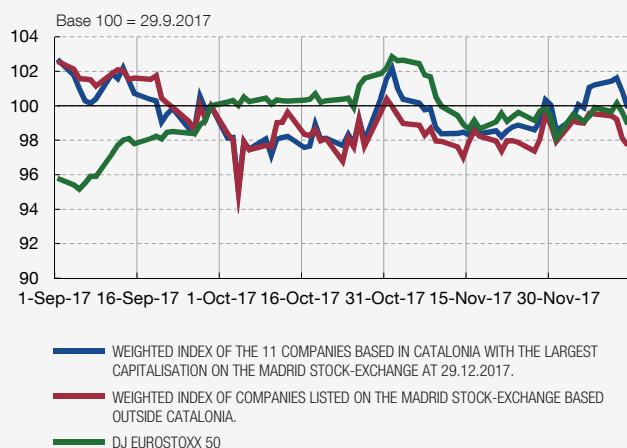
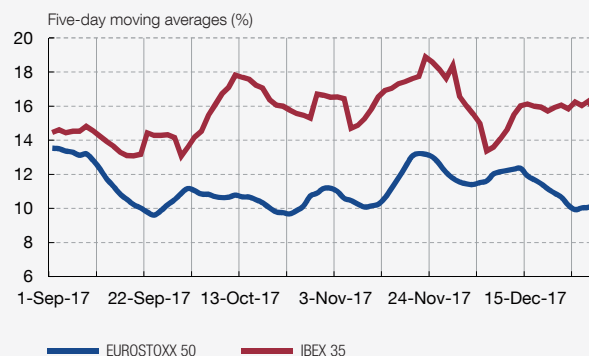


Chart 2
IMPLIED VOLATILITY



SOURCES: Bloomberg and Banco de España.

Chart 3
FINANCIAL MARKET UNCERTAINTY (a)

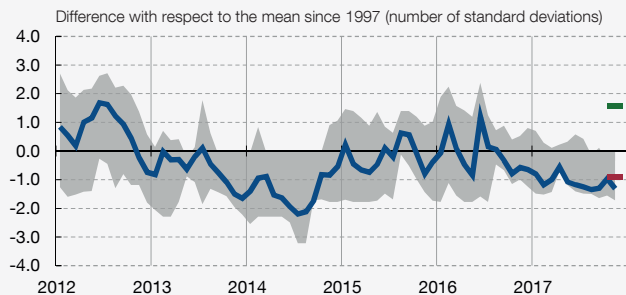
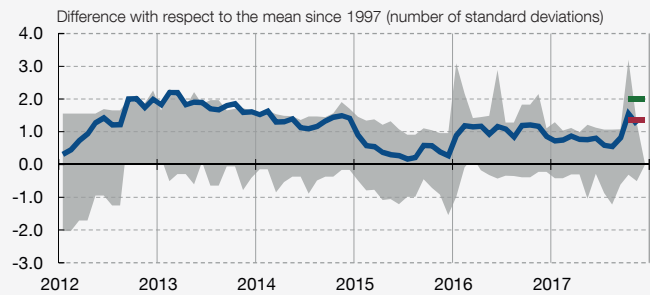


Chart 4
ECONOMIC UNCERTAINTY AND UNCERTAINTY ABOUT ECONOMIC POLICY (b)



— OBSERVED — SCENARIO 1 (c) — SCENARIO 2 (c)

Chart 5
SOCIAL SECURITY REGISTRATIONS - CHANGE IN 2017 (d)

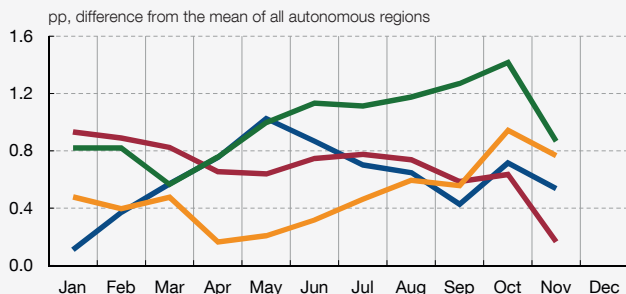


Chart 6
COMMERCIAL VEHICLE REGISTRATIONS - CHANGE IN 2017 (d)

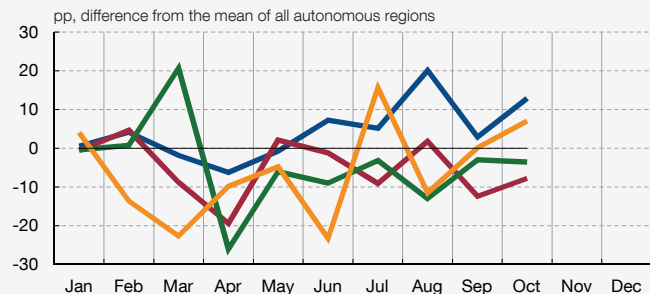


Chart 7
OVERNIGHT STAYS BY NON-RESIDENTS - CHANGE IN 2017 (d)

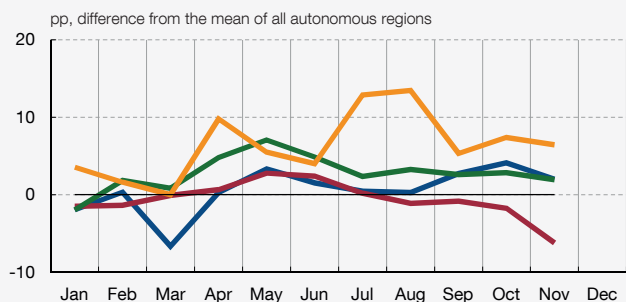
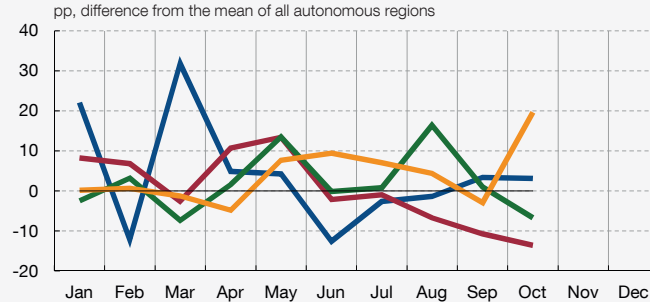


Chart 8
HOME PURCHASES - CHANGE IN 2017 (d)



— ANDALUSIA — CATALONIA — VALENCIA REGION — MADRID REGION

SOURCES: INE, IESE, FUNCAS, CIS Barometer, PRS Group and Banco de España.

- a. Synthetic indicator calculated from indicators of the volatility of the IBEX-35, exchange rates, oil prices, and ten-year bonds. The shaded area represents the indicator range.
- b. Synthetic indicator calculated based on CIS political assessment indicators (current and expectations), political risk indicator (PRS Group), national parliament fragmentation index, indicator of uncertainty regarding economic policies (EPU), and disagreement in the public debt forecasts. The shaded area represents the indicator range.
- c. The scenarios correspond to the hypotheses used in Box 1.1 ("The Economic Impact of Uncertainty Arising from Political Tensions in Catalonia") in the Banco de España's November 2017 *Financial Stability Report*. In scenario 1 it is assumed that the level of uncertainty increases temporarily in 2017 Q4 and returns to the 2017 Q3 level in 2018 Q1. This increase is calibrated based on the statistical distribution of the measures of uncertainty considered, which increase by a magnitude that is in the 90th percentile of each series (i.e. only 10% of the historical changes in each individual indicator are higher than those assumed). In scenario 2 an increase in uncertainty in 2017 Q4 equivalent to that recorded in the historical episode marking the sharpest rise is assumed, on the assumption that following this initial shock the level of the uncertainty indicators decreases linearly over the simulation horizon.
- d. Year-on-year rates from seasonally adjusted series (deviations with respect to average growth of all autonomous regions).

economic impact of the uncertainty deriving from political tensions in Catalonia referred to above.

The information on economic activity in Spain as a whole and in the autonomous regions in the current quarter is still incomplete, but now includes a significant set of indicators, in particular for the months of October and, to a lesser extent, November. This information shows economic activity to have slowed in Catalonia in the final months of the year to a larger extent than the average across the regions considered (Charts 5 to 8). The slowdown was due in particular to the worse performance of a variety of indicators, including those for employment, tourism and the housing market

in this autonomous region, with respect to the average of all the regions and, in particular, the largest regions by economic weight.

The final impact of this risk factor on the Spanish economy as a whole in the fourth quarter will depend on the eventual scale and persistence of the uncertainty. An easing of tensions in Catalonia, as was seen in November and early December, could lead to a scenario of faster output growth than envisaged in recently published forecasts. On the other hand, a hypothetical resurgence of tensions in the coming months could result in a more pronounced impact on agents' consumption and investment decisions than may be inferred from the partial data available.
