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Turbulence In Catalonia Threatens Spain's Rally

By PETER S. GOODMAN and RACHEL CHAUNDLER

Trepidation over an exodus of businesses from Catalonia.

LONDON — Those inclined to the view that no price can be placed on freedom have presumably missed the action in the Spanish bond market.

Investors have taken heed of the independence referendum in Catalonia and the violent efforts from the Spanish authorities to halt the vote. They have absorbed a potential constitutional crisis and the threat of social unrest. And many have decided that there are better things to do with their money than lend it to the Spanish government.

As a result, Spain now finds itself having to pay slightly higher premiums to persuade investors to buy its debt. That is likely to translate into higher borrowing costs for Spanish banks, and less credit for Spanish businesses and households, depriving the economy of fuel.

Increased borrowing costs were showing no signs of spilling into Italy, Portugal or other regional economies on Friday. The euro — seemingly never far from danger — was, at least for the time being, spared fresh crisis.

But banks based in Catalonia, which suffered plunges in their share prices following the independence referendum, have been exploring plans to shift their headquarters to other parts of Spain. The possibility that Catalonia might declare independence has left those banks vulnerable to being severed from Spain and — by extension — the European Union and the bloc of nations that uses the euro currency.

Such isolation would put at risk the banks' ability to transact with clients across the Continent and to tap the largess of European institutions should another crisis emerge.

On Thursday, the board of one bank, Banco Sabadell, approved the transfer of the lender's headquarters to Alicante, a city on the Mediterranean, 330 miles ger of ceasing to be part of Spain.

By the end of the day, Sabadell's stock had surged more than 6 percent.

On Friday, the Spanish government decreed a legal change giving firms the right to move their headquarters without having to win the approval of shareholders. Soon, CaixaBank convened its board, agreeing on Friday evening to move from Barcelona to Valencia — another city solidly within Spain.

In other industries, like textiles, telecommunications and energy, companies have in recent days made similar moves. All were seemingly intent on foreclosing the possibility of landing in a state of crippling purgatory if Catalonia became independent.

Though the movement of corporate headquarters is merely an exercise in paperwork, it deprives the local government of revenue from corporate taxes. The Catalan leadership accused the Spanish government of inciting businesses to leave as a means of pressuring Catalans to relinquish their independence aspirations. Taking to Twitter, the economic secretary of Catalonia's regional government, Pere Aragonès, said that Madrid was "seeking to punish the Catalan economy."

The exodus of businesses from Catalonia was unfolding just as Spain had appeared to be emerging from the financial malaise that had seized the country for a decade. From being an example of the joblessness, poverty and despair that had assaulted much of the Continent, Spain was becoming an indicator of a European economy that had regained vigor.

"We have just gotten through a major crisis," said Carlos Buesa, founder and chief executive of Oryzon Genomics, a Spanish biopharmaceutical firm. "What is happening now gives me a sense of sadness and incredulity. If this political conflict over the Catalan identity continues, the Catalan economy will be impoverished."

Investment has been returning to Spain, financing its fast-growing auto industry and a resumption of construction. The unemployment rate has dropped from a terrifying peak of 26 percent to a still-alarming 17 percent. But political turmoil, legal ambiguity and confusion over the basic geography of Spain could prompt a reversal.

"Money doesn't like uncertainty," said Angel Talavera, a senior eurozone economist at Oxford Economics in London and a native of Spain. "As long as this situation is so confusing and no one really knows what's going to happen, money is going to start leaving Spain. Money moves fast."

On Friday, Madrid was paying 1.7 percent on its 10-year bonds. That was a modest number, far from a sign of the world on fire. Yet it was twice as high as a year earlier. The gap between what investors were demanding for taking on Spanish debt and that for taking on German debt — the least risky asset in Europe — has widened slightly in recent weeks.

The increase to borrowing costs was fueled by a gnawing question: If Catalonia were to depart

Le turbolenze in Catalogna minacciano la ripresa della Spagna

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Spain, what happens to Spain's debt obligations?

"In the sovereign bond market, the only guarantee is that someone should trust the state that issued the debt," said Nicola Borri, a finance professor at Luiss Guido Carli University in Rome. "Say Spain breaks up. Who is responsible for this debt? Are they going to split it between Catalonia and the rest of Spain?"

Roughly a fifth of Spain's total economic output comes from Catalonia. Whatever territories were to emerge from a divorce, they would be smaller and presumably less creditworthy than the government standing behind Spanish bonds now.

The operative assumption in the marketplace is that Catalan independence will not happen. But markets trade in probabilities. The odds for independence have improved in recent days. Investors are demanding compensation for the elevated risks of holding Spanish debt.

The unease appeared to be amplified by a case of chronic uncertainty fatigue plaguing Europe, especially as Britain pursues its exit from the European Union. Brexit, as that is known, has unleashed a bewildering array of unknowns on the European marketplace, and especially for global banks.

In Spain, unpredictable forces were washing over the economy. The Catalan referendum was held on Sunday. As markets opened on Monday, investors punished banking stocks.

"Investors saw the ears of the wolf," said Miguel Otero Iglesias, a senior analyst at Elcano Royal Institute in Madrid. "If people are willing to put children in front of riot police, they might as well be claiming independence. That's when rational business calculation starts to flounder."

By the end of trading on Wednesday, Banco Sabadell's shares were down by nearly 10 percent while CaixaBank had suffered an 8 percent plunge.

Among the most heavily regulated products on the planet are pharmaceuticals. On Tuesday, Oryzon Genomics announced that it was moving to Madrid from Barcelona.

"We are at risk of being caught in a situation of legal limbo following a possible unilateral declaration of independence," said Mr. Buesa, the company's chief executive. Oryzon's share price soon surged by nearly 13 percent.

The rest of Catalonia and Spain do not appear likely to find such a quick fix.

"There is a lot of uncertainty right now," said Mr. Borri, the finance professor. "Markets are worried."

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