

# Uncertain impact of uncertainty

Expansión (Spain)

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The economic impact of the tensions currently being experienced in Catalonia is difficult to gauge. One way in which attempts have been made to do so is by constructing indices that seek to calibrate the level of uncertainty felt by households and businesses. These indices are constructed thanks to the big databases that have recently become available, allowing millions of newspaper articles to be analysed in real time and with a high frequency. Having done this, it is possible to isolate the effect that past events causing similar levels of concern in society to those seen at present have had on GDP. However, the simulations deriving from this have to be treated with caution, given the exceptional nature of the recent events. That said, it would be ingenuous to think that the events of the past few weeks will have no effect on domestic activity. In any case, it also has to be said that there remain internal and external dynamics whose momentum is difficult to halt, and which could partly offset the increase in uncertainty.

In order to assess the foregoing it is worth taking account of the current situation of the Spanish economy as a starting point. The latest activity data point to GDP increasing in the fourth quarter of the year by between 0.8% and 1.0% QoQ, in line with the trend observed over the past three years. This means that the starting point is one of solidity, with annualised growth of more than 3%. However, various factors could slow the advance in economic activity. On the one hand, the terrorist attacks suffered in August in Catalonia could have an effect on foreign tourist arrivals. The indices referred to above show that these events increased the attention given to Barcelona with the same intensity, duration and tone as in similar situations experienced by other cities such as Paris, Nice and London. Using these experiences as a reference, we calculate that foreign tourist overnight stays could be between 1.5% and 2.0% fewer than in a scenario with no attacks.

Also, the political environment in Catalonia has contributed to an increase in uncertainty about economic policy, which has reached levels in excess of those seen in 2016, when the situation following the general election of late 2015 was weighing on businesses' and households' expectations. Estimating the impact of the foregoing on GDP is particularly difficult, since the current uncertainty seems to be of a different nature from that seen in the past. Moreover, it presents paths of transmission to other regions that may be singular due to the particular characteristics of the event faced by the Spanish economy. On the other hand, there are various factors that could moderate the effect on activity, such as the ECB's monetary policy and the recovery in GDP seen in the EMU. Lastly, the repercussions for the economy will depend crucially on how great the uncertainty is and for how long. In particular, in the most likely scenario we expect the tensions to diminish and the anchoring provided by the favourable international context and the economy's strong momentum to limit the negative impact (relative to a stress-free scenario) to a range of 0.1 to 0.5 pp of GDP in 2018. However, if the levels of tension observed in October last until the end of 2017, the effect could be as much as 1.1 pp of GDP in 2018.

Looking ahead, one of the main effects that the current environment could have is represented by opportunity cost. In particular, significant reforms such as those relating to the financing of the autonomous regions, the pensions system and improvements to the functioning of the labour market have been postponed. And this at a time when the ECB is moving closer to withdrawing the stimulus measures that

have kept the Spanish economy's cost of financing at historically low levels. It is therefore essential to put these issues back at the top of the legislative agenda and to build the necessary consensus for consolidating the recovery and reducing inequality.

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