



Regional autonomy movements in Europe - also about finances

- Beyond the Catalan referendum, independence movements in Europe seem to enjoy a revival. But calls for greater autonomy or even secession are not just about cultural identity - financial discrepancies between regions also play a major role. Unsurprisingly, most of the regions with strong separatist tendencies are amongst the wealthiest in their respective countries. Calls for (more) independence seem to be loudest when national financial equalization mechanisms lead to results that are perceived as disproportional, such as in Spain or Italy.

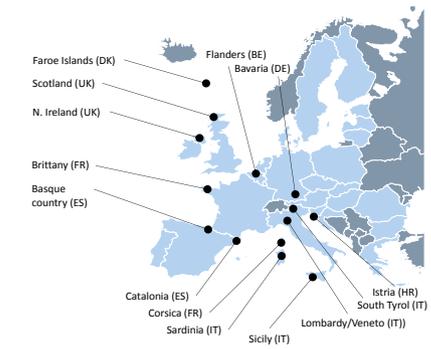
Barbara Boettcher
Senior Economist
(+49) 69 910-31787
barbara.boettcher@db.com

Kevin Koerner
Economist
(+49) 69 910-31718
kevin.koerner@db.com

Not only in Catalonia

The political escalation in Spain that followed Catalonia's (unconstitutional) independence referendum early October has been a reminder: even in a Europe with (almost) no borders and a single market, calls for more regional autonomy have not silenced. Only a few weeks after the Catalan crisis unfold, an overwhelming majority of voters opted for greater autonomy in the wealthy Northern-Italian provinces of Lombardy and Veneto. Three years ago, Scotland decided in a contested referendum to stay within the UK. But that was before the Brexit vote, and there are concerns that a second Scottish referendum might be held if the UK leaves the EU with unfavorable terms. And after all, what is the Brexit vote itself than a call for more "regional" self-determination?

Figure 1: European autonomy/separatist movements (selected)

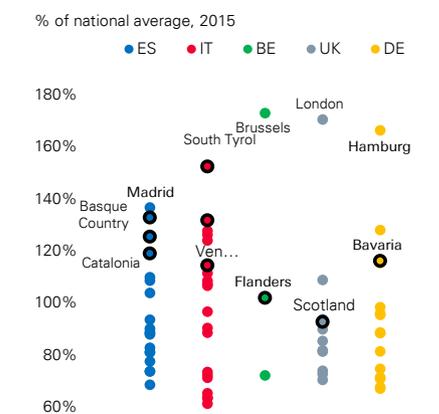


Source: Deutsche Bank

It's about finances (and redistribution), too

It is important to note, though, that most independence movements in Europe do not seek outright secession but rather greater regional autonomy within their respective nation-states. Underlying motives may vary between regions and include cultural, language-related, historical and other "emotional" aspects. But more often than not, public finances and the distribution of fiscal revenues play a key role as well. It therefore seems no coincidence that calls for more independence are often loudest in the most prosperous regions.

Figure 2: Per capita income - regions with autonomy movements versus other parts of country



Source: Deutsche Bank, Eurostat

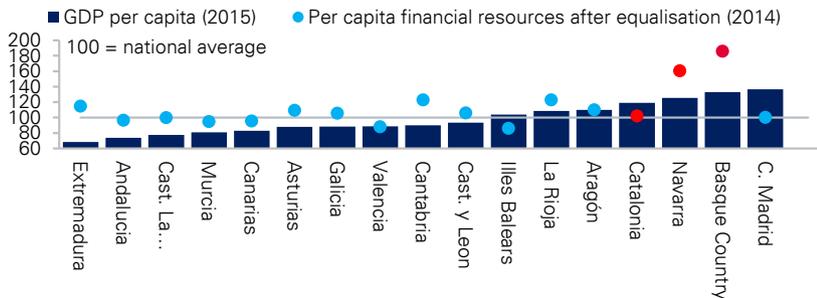
Among Spanish regions, the Basque Country and Navarre — for decades haunted by separatist violence — rank second and third in terms of per capita income, right after Madrid (see lower chart). Catalonia follows in fourth place. Also in Italy, regions with strong independence movements lead the ranks. Lombardy has the second largest income per capita, right after South Tyrol (which already is partly autonomous and historically had strong separatist support). Veneto ranks sixth. Belgium is deeply divided between the French-speaking Wallonian and Dutch-speaking Flemish. In Flanders, with per capita income substantially higher than in Wallonia,¹ the separatist New Flemish Alliance is the strongest political force. Scotland's income per capita is at 93% of the UK's national average, but the latter

¹ Brussels, the largely francophone capital has a special status.



is pushed up strongly by London (170%). Scotland follows London, the South-East and East of England as the fourth richest region. In Germany, income divergence increased after the German reunification. Excluding the city states of Hamburg and Bremen, Bavaria is the most prosperous state per capita.²

Figure 3: Spain: asymmetry between regions with/without fiscal autonomy



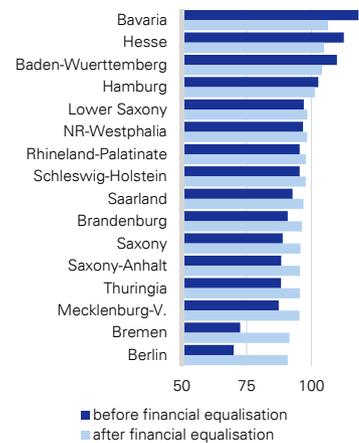
Source: Deutsche Bank, Ministry of Finance and Civil Service/de la Fuente et al. (2014), Eurostat

But while in Catalonia, Lombardy, Flanders and Scotland, independence movements enjoy broad public support (even though not necessarily by the majority), the Bavarian Party has no real political weight. The same applies to separatists in France such as in Brittany as well "Basque" and "Catalan" areas on the border with Spain. The strong independence movement in Corsica is a main exception.

To understand these differences it might help to have a look at the national fiscal equalization schemes. In Italy, five regions (including South Tyrol) have autonomy status but this does not apply to Lombardy and Veneto. At the same time, Lombardy and Veneto are among the highest net payers per capita in the interregional fiscal transfers. In Spain, the Basque Country and Navarre have a special autonomy status, which exempts them from the Spanish equalization scheme. For Catalonia, however, the fiscal transfer of revenues between regions leads to a changed ranking in terms of per capita financial resources after equalization. Unsurprisingly, preserving the ranking has been a key Catalan demand (but denied by the constitutional court in 2010). This contrasts with the situation e.g. in Germany. Also here, a high level of financial integration between the federal states is reflected in a substantial redistribution of tax revenues. However, through the strong representation of the German states in national politics, net contributors have warranted that the German equalization scheme does not lead to a changed ranking of relative fiscal capacities (see figure opposite). This last example illustrates that in dealing with separatist sentiment, fiscal concessions may sometimes be a price worth paying.

Figure 4: Germany - no change in relative ranking of fiscal capacity after equalisation

% of per capita average, values for unweighted population, incl. municipal taxes (2015)



Source: Deutsche Bank, Federal Ministry of Finance

² For a detailed discussion, see [Deutsche Bank \(2014\): "Better off on their own? Economic aspects of regional autonomy and independence movements in Europe"](#).



Appendix 1

Important Disclosures

*Other information available upon request

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg, and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>. Aside from within this report, important conflict disclosures can also be found at <https://gm/db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s). In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Barbara Boettcher, Kevin Koerner, Mark Wall



Additional Information

The information and opinions in this report were prepared by Deutsche Bank AG or one of its affiliates (collectively "Deutsche Bank"). Though the information herein is believed to be reliable and has been obtained from public sources believed to be reliable, Deutsche Bank makes no representation as to its accuracy or completeness. Hyperlinks to third-party websites in this report are provided for reader convenience only. Deutsche Bank neither endorses the content nor is responsible for the accuracy or security controls of those websites.

If you use the services of Deutsche Bank in connection with a purchase or sale of a security that is discussed in this report, or is included or discussed in another communication (oral or written) from a Deutsche Bank analyst, Deutsche Bank may act as principal for its own account or as agent for another person.

Deutsche Bank may consider this report in deciding to trade as principal. It may also engage in transactions, for its own account or with customers, in a manner inconsistent with the views taken in this research report. Others within Deutsche Bank, including strategists, sales staff and other analysts, may take views that are inconsistent with those taken in this research report. Deutsche Bank issues a variety of research products, including fundamental analysis, equity-linked analysis, quantitative analysis and trade ideas. Recommendations contained in one type of communication may differ from recommendations contained in others, whether as a result of differing time horizons, methodologies, perspectives or otherwise. Deutsche Bank and/or its affiliates may also be holding debt or equity securities of the issuers it writes on. Analysts are paid in part based on the profitability of Deutsche Bank AG and its affiliates, which includes investment banking, trading and principal trading revenues.

Opinions, estimates and projections constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Deutsche Bank and are subject to change without notice. Deutsche Bank provides liquidity for buyers and sellers of securities issued by the companies it covers. Deutsche Bank research analysts sometimes have shorter-term trade ideas that may be inconsistent with Deutsche Bank's existing longer-term ratings. Trade ideas for equities can be found at the SOLAR link at <http://gm.db.com>. A SOLAR idea represents a high-conviction belief by an analyst that a stock will outperform or underperform the market and/or a specified sector over a time frame of no less than two weeks and no more than six months. In addition to SOLAR ideas, analysts may occasionally discuss with our clients, and with Deutsche Bank salespersons and traders, trading strategies or ideas that reference catalysts or events that may have a near-term or medium-term impact on the market price of the securities discussed in this report, which impact may be directionally counter to the analysts' current 12-month view of total return or investment return as described herein. Deutsche Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof if an opinion, forecast or estimate changes or becomes inaccurate. Coverage and the frequency of changes in market conditions and in both general and company-specific economic prospects make it difficult to update research at defined intervals. Updates are at the sole discretion of the coverage analyst or of the Research Department Management, and the majority of reports are published at irregular intervals. This report is provided for informational purposes only and does not take into account the particular investment objectives, financial situations, or needs of individual clients. It is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. Target prices are inherently imprecise and a product of the analyst's judgment. The financial instruments discussed in this report may not be suitable for all investors, and investors must make their own informed investment decisions. Prices and availability of financial instruments are subject to change without notice, and investment transactions can lead to losses as a result of price fluctuations and other factors. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results. Performance calculations exclude transaction costs, unless otherwise indicated. Unless otherwise indicated, prices are current as of the end of the previous trading session and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is also sourced from Deutsche Bank, subject companies, and other parties.

The Deutsche Bank Research Department is independent of other business divisions of the Bank. Details regarding organizational arrangements and information barriers we have established to prevent and avoid conflicts of interest with respect to our research are available on our website under Disclaimer, found on the Legal tab.



Macroeconomic fluctuations often account for most of the risks associated with exposures to instruments that promise to pay fixed or variable interest rates. For an investor who is long fixed-rate instruments (thus receiving these cash flows), increases in interest rates naturally lift the discount factors applied to the expected cash flows and thus cause a loss. The longer the maturity of a certain cash flow and the higher the move in the discount factor, the higher will be the loss. Upside surprises in inflation, fiscal funding needs, and FX depreciation rates are among the most common adverse macroeconomic shocks to receivers. But counterparty exposure, issuer creditworthiness, client segmentation, regulation (including changes in assets holding limits for different types of investors), changes in tax policies, currency convertibility (which may constrain currency conversion, repatriation of profits and/or liquidation of positions), and settlement issues related to local clearing houses are also important risk factors. The sensitivity of fixed-income instruments to macroeconomic shocks may be mitigated by indexing the contracted cash flows to inflation, to FX depreciation, or to specified interest rates – these are common in emerging markets. The index fixings may – by construction – lag or mis-measure the actual move in the underlying variables they are intended to track. The choice of the proper fixing (or metric) is particularly important in swaps markets, where floating coupon rates (i.e., coupons indexed to a typically short-dated interest rate reference index) are exchanged for fixed coupons. Funding in a currency that differs from the currency in which coupons are denominated carries FX risk. Options on swaps (swaptions) the risks typical to options in addition to the risks related to rates movements.

Derivative transactions involve numerous risks including market, counterparty default and illiquidity risk. The appropriateness of these products for use by investors depends on the investors' own circumstances, including their tax position, their regulatory environment and the nature of their other assets and liabilities; as such, investors should take expert legal and financial advice before entering into any transaction similar to or inspired by the contents of this publication. The risk of loss in futures trading and options, foreign or domestic, can be substantial. As a result of the high degree of leverage obtainable in futures and options trading, losses may be incurred that are greater than the amount of funds initially deposited – up to theoretically unlimited losses. Trading in options involves risk and is not suitable for all investors. Prior to buying or selling an option, investors must review the "Characteristics and Risks of Standardized Options", at <http://www.optionsclearing.com/about/publications/character-risks.jsp>. If you are unable to access the website, please contact your Deutsche Bank representative for a copy of this important document.

Participants in foreign exchange transactions may incur risks arising from several factors, including: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government-imposed exchange controls, which could affect the value of the currency. Investors in securities such as ADRs, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Deutsche Bank is not acting as a financial adviser, consultant or fiduciary to you or any of your agents with respect to any information provided in this report. Deutsche Bank does not provide investment, legal, tax or accounting advice, and is not acting as an impartial adviser. Information contained herein is being provided on the basis that the recipient will make an independent assessment of the merits of any investment decision, and is not meant for retirement accounts or for any specific person or account type. The information we provide is directed only to persons we believe to be financially sophisticated, who are capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies, and who understand that Deutsche Bank has financial interests in the offering of its products and services. If this is not the case, or if you or your agent are an IRA or other retail investor receiving this directly from us, we ask that you inform us immediately.

Unless governing law provides otherwise, all transactions should be executed through the Deutsche Bank entity in the investor's home jurisdiction. Aside from within this report, important risk and conflict disclosures can also be found at <https://gm.db.com> on each company 's research page and under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

United States: Approved and/or distributed by Deutsche Bank Securities Incorporated, a member of FINRA, NFA and SIPC. Analysts located outside of the United States are employed by non-US affiliates that are not subject to FINRA regulations, including those regarding contacts with issuer companies.



Germany: Approved and/or distributed by Deutsche Bank AG, a joint stock corporation with limited liability incorporated in the Federal Republic of Germany with its principal office in Frankfurt am Main. Deutsche Bank AG is authorized under German Banking Law and is subject to supervision by the European Central Bank and by BaFin, Germany 's Federal Financial Supervisory Authority.

United Kingdom: Approved and/or distributed by Deutsche Bank AG acting through its London Branch at Winchester House, 1 Great Winchester Street, London EC2N 2DB. Deutsche Bank AG in the United Kingdom is authorised by the Prudential Regulation Authority and is subject to limited regulation by the Prudential Regulation Authority and Financial Conduct Authority. Details about the extent of our authorisation and regulation are available on request.

Hong Kong: Distributed by Deutsche Bank AG, Hong Kong Branch or Deutsche Securities Asia Limited.

India: Prepared by Deutsche Equities India Private Limited (DEIPL) having CIN: U65990MH2002PTC137431 and registered office at 14th Floor, The Capital, C-70, G Block, Bandra Kurla Complex Mumbai (India) 400051. Tel: + 91 22 7180 4444. It is registered by the Securities and Exchange Board of India (SEBI) as a Stock broker bearing registration nos.: NSE (Capital Market Segment) - INB231196834, NSE (F&O Segment) INF231196834, NSE (Currency Derivatives Segment) INE231196834, BSE (Capital Market Segment) INB011196830; Merchant Banker bearing SEBI Registration no.: INM000010833 and Research Analyst bearing SEBI Registration no.: INH000001741. DEIPL may have received administrative warnings from the SEBI for breaches of Indian regulations. Deutsche Bank and/or its affiliate(s) may have debt holdings or positions in the subject company. With regard to information on associates, please refer to the "Shareholdings" section in the Annual Report at: <https://www.db.com/ir/en/annual-reports.htm>.

Japan: Approved and/or distributed by Deutsche Securities Inc.(DSI). Registration number - Registered as a financial instruments dealer by the Head of the Kanto Local Finance Bureau (Kinsho) No. 117. Member of associations: JSDA, Type II Financial Instruments Firms Association and The Financial Futures Association of Japan. Commissions and risks involved in stock transactions - for stock transactions, we charge stock commissions and consumption tax by multiplying the transaction amount by the commission rate agreed with each customer. Stock transactions can lead to losses as a result of share price fluctuations and other factors. Transactions in foreign stocks can lead to additional losses stemming from foreign exchange fluctuations. We may also charge commissions and fees for certain categories of investment advice, products and services. Recommended investment strategies, products and services carry the risk of losses to principal and other losses as a result of changes in market and/or economic trends, and/or fluctuations in market value. Before deciding on the purchase of financial products and/or services, customers should carefully read the relevant disclosures, prospectuses and other documentation. "Moody's", "Standard & Poor's", and "Fitch" mentioned in this report are not registered credit rating agencies in Japan unless Japan or "Nippon" is specifically designated in the name of the entity. Reports on Japanese listed companies not written by analysts of DSI are written by Deutsche Bank Group's analysts with the coverage companies specified by DSI. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan. Target prices set by Deutsche Bank's equity analysts are based on a 12-month forecast period..

Korea: Distributed by Deutsche Securities Korea Co.

South Africa: Deutsche Bank AG Johannesburg is incorporated in the Federal Republic of Germany (Branch Register Number in South Africa: 1998/003298/10).

Singapore: This report is issued by Deutsche Bank AG, Singapore Branch or Deutsche Securities Asia Limited, Singapore Branch (One Raffles Quay #18-00 South Tower Singapore 048583, +65 6423 8001), which may be contacted in respect of any matters arising from, or in connection with, this report. Where this report is issued or promulgated by Deutsche Bank in Singapore to a person who is not an accredited investor, expert investor or institutional investor (as defined in the applicable Singapore laws and regulations), they accept legal responsibility to such person for its contents.

Taiwan: Information on securities/investments that trade in Taiwan is for your reference only. Readers should independently evaluate investment risks and are solely responsible for their investment decisions. Deutsche Bank research may not be distributed to the Taiwan public media or quoted or used by the Taiwan public media without written consent. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be



construed as a recommendation to trade in such securities/instruments. Deutsche Securities Asia Limited, Taipei Branch may not execute transactions for clients in these securities/instruments.

Qatar: Deutsche Bank AG in the Qatar Financial Centre (registered no. 00032) is regulated by the Qatar Financial Centre Regulatory Authority. Deutsche Bank AG - QFC Branch may undertake only the financial services activities that fall within the scope of its existing QFCRA license. Its principal place of business in the QFC: Qatar Financial Centre, Tower, West Bay, Level 5, PO Box 14928, Doha, Qatar. This information has been distributed by Deutsche Bank AG. Related financial products or services are only available only to Business Customers, as defined by the Qatar Financial Centre Regulatory Authority.

Russia: The information, interpretation and opinions submitted herein are not in the context of, and do not constitute, any appraisal or evaluation activity requiring a license in the Russian Federation.

Kingdom of Saudi Arabia: Deutsche Securities Saudi Arabia LLC Company (registered no. 07073-37) is regulated by the Capital Market Authority. Deutsche Securities Saudi Arabia may undertake only the financial services activities that fall within the scope of its existing CMA license. Its principal place of business in Saudi Arabia: King Fahad Road, Al Olaya District, P.O. Box 301809, Faisaliah Tower - 17th Floor, 11372 Riyadh, Saudi Arabia.

United Arab Emirates: Deutsche Bank AG in the Dubai International Financial Centre (registered no. 00045) is regulated by the Dubai Financial Services Authority. Deutsche Bank AG - DIFC Branch may undertake only the financial services activities that fall within the scope of its existing DFSA license. Its principal place of business in the DIFC: Dubai International Financial Centre, The Gate Village, Building 5, PO Box 504902, Dubai, U.A.E. This information has been distributed by Deutsche Bank AG. Related financial products or services are available only to Professional Clients, as defined by the Dubai Financial Services Authority.

Australia: Retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product. Please refer to Australia-specific research disclosures and related information at <https://australia.db.com/australia/content/research-information.html>

Australia and New Zealand: This research is intended only for "wholesale clients" within the meaning of the Australian Corporations Act and New Zealand Financial Advisors Act, respectively.

Additional information relative to securities, other financial products or issuers discussed in this report is available upon request. This report may not be reproduced, distributed or published without Deutsche Bank's prior written consent. Copyright © 2017 Deutsche Bank AG



David Folkerts-Landau

Group Chief Economist and Global Head of Research

Raj Hindocha
Global Chief Operating Officer
Research

Michael Spencer
Head of APAC Research
Global Head of Economics

Steve Pollard
Head of Americas Research
Global Head of Equity Research

Anthony Klarman
Global Head of
Debt Research

Paul Reynolds
Head of EMEA
Equity Research

Dave Clark
Head of APAC
Equity Research

Pam Finelli
Global Head of
Equity Derivatives Research

Andreas Neubauer
Head of Research - Germany

Spyros Mesomeris
Global Head of Quantitative
and QIS Research

International locations

Deutsche Bank AG

Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG

Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG

Filiale Hongkong
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.

2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Deutsche Bank AG London

1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500
