



R&R Weekly Column  
By Brunello Rosa



## EU Countries Are Rushing To Present National Recovery And Resilience Plans

By the end of this week, EU countries will be submitting their National Recovery and Resilience Plans to the EU Commission for an initial evaluation. If the Commission and the EU Council have no major objections to the countries' plans, then up to 13% of the funds agreed on in July 2020 can be distributed this summer, in order to allow countries to begin their post-pandemic reconstruction efforts. In reality, for the plans to become fully operational, the ratification of the EU Commission's so-called "own resources" plan (linked to the [2021-2027 Multiannual Financial Framework](#)) is required from all EU parliaments. If the Commission is unable to raise its own resources, it cannot issue the long-awaited bonds that will finance a large component of the Next Generation EU plan. Unfortunately, only [17 out of 27 countries have so far ratified the plan](#). There is still opposition coming from part of the Viségrad Group, in particular from Poland, where the ratification of the plan [risks opening a government crisis due to opposition from a component of the right-wing populist majority](#). But even Germany is making the rest of Europe hold its breath, as its [Constitutional Court has been asked](#) to judge whether the plan is in line with the principles of Germany's fundamental law.

While the ratification processes continue, governments across Europe are rushing to present their reconstruction plans. In this instance, the countries that were at the centre of the Euro crisis in 2009-12 are acting the most responsibly. [Portugal was the first country to present its plan to the EU Commission](#), on 22 April, well ahead of the deadline. Its plan is innovative and contains a good mix of reforms and investments.


Greece, meanwhile, has been widely recognised by the Eurogroup and the Ecofin as the country able to provide the best template for how to write a national plan and organise the governance of the reconstruction process and the eventual management of the attendant funds. Greece was so sure of the merits of its plans that it even asked the [European Investment Bank \(EIB\) to manage EUR 5bn of its investment projects](#) once the funds will be disbursed. Clearly, lots of water has gone under the bridge since the era of the Troika (or the Institutions, as Yanis Varoufakis called them).


Italy is also going to be presenting its plan on time, and the presence of Mario Draghi (former president of the European Central Bank) is considered a guarantee that the plan will be approved by Brussels, with [international press](#) recognizing his role in making Italy a "power player" in Europe. (Much harder will be the actual implementation of the plan back in Italy, as Draghi may be Super-Mario [but is not Superman](#)). In contrast, countries that would be expected to easily win the approval of Brussels, such as Germany, received informal reprimands for the [lack of reforms made in the initial drafts of their plans](#).

Eventually we expect all 27 countries to ratify the "own resources" plan of the EU Commission, and present its national recovery and resilience plans, perhaps at the cost of some twisted arms and perhaps with some countries being slightly late with their submissions. This is an integral part of the EU's overall policy response to the pandemic, which is already much smaller in scale than what the US has actually deployed. During its [latest press conference](#), ECB President Lagarde said that the ECB can complement but not substitute the fiscal stimulus expected to come from the EU and national governments.

The implementation of the Next Generation EU plan would be good for financial markets as well as for national economies. Market participants have been waiting for years for the issuance of a proper pan-European safe asset, which will allow the risk/reward profile of EUR-denominated portfolios to improve.

### Our Recent Publications

 [Flash Preview: Bank Of Japan On Hold After The Policy Strategy Review In March](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 23 March 2021

 [Flash Review: BoC Reduces QE and Shortens The Time Before A Possible First Rate Increase](#), by Brunello Rosa, 21 April 2021

 [Flash Review: ECB Maintains Higher Pace of PEPP Purchases](#), by Brunello Rosa, 22 April 2021



[GEOPOLITICAL CORNER: Putin As Gaullist: Making Sense of the Ukrainian Crisis](#), by John C. Hulsman, 20 April 2021

Looking Ahead

The Week Ahead: Inflation Is Expected To Increase In US And The EZ; GDP Growth To Rise In US Whilst Being Negative In The EZ

**In the US**, Q1 GDP growth is expected to increase to 5.7% q-o-q (*p*: 4.3%). In March, the PCE price index is expected to increase to 1.9% y-o-y (*p*: 1.6%) and the core PCE price index is likely to rise to 1.8% y-o-y (*p*: 1.4%).

**In the EZ**, Q1 GDP growth is expected to: *i*) decline further q-o-q, to -0.9% (*p*: -0.7%); and *ii*) ease to -2.0% y-o-y (*p*: -4.9%). In March, the inflation rate is expected to increase to 1.5% y-o-y (*p*: 1.3%) while core inflation is expected to stay muted at 0.9% y-o-y.

The Quarter Ahead: COVID-19 Vaccines Reach More Than 172 Countries; India Under Stress; Central Banks On Hold

**Globally**, since the pandemic started last year COVID-19 cases continue to rise, hitting 144.7m - with more than 3m deaths. So far, more than 993m doses of vaccine have been administered across 172 countries, enough to fully vaccinate 6.5% of the global population – but the vaccine distribution has been unequal: high-income countries are getting vaccinated about 25 times faster than low-income ones.

**In India**, the latest wave of the Covid pandemic, fueled by the B.1.617 variant, is spreading quickly and is likely to be more ‘vaccine evasive’ than in the past. Hospitals are running low on oxygen, raising: *i*) concern among medical workers; and *ii*) fears that the country’s COVID death toll will continue to rise sharply.

**In Europe**, as the debate over unfair access to vaccines for the world’s poorest continues, the European Commission expects to secure up to 1.8bn doses of Pfizer’s COVID-19 vaccine for the next few years. The agreement will provide enough vaccines to inoculate the EU population (450m citizens) for two years, and comes as the bloc seeks to shore up long-term supplies.

**In the US**, after unveiling a USD 2.3tn infrastructure spending proposal powered by corporate tax increases, President Biden will soon release his “American Families Plan” to offer support programs, such as: *i*) free community college; and *ii*) paid family leave. To raise revenues, the administration is likely to propose an almost-doubling of the capital gains tax rate, to 39.6% - for citizens earning USD 1m or more.

**In the US**, Fed Chair Powell stated that the US economy will temporarily see “a little higher inflation this year, as the economy strengthens” and “supply constraints push up prices in some sectors”, but the Fed is “committed to keeping any overshoot within limits.”

Last Week’s Review

Real Economy: The Global Economic Recovery Remains Fragile, While Downside Risks Rise

**In the US**, preliminary data for April’s PMIs showed that: *i*) manufacturing PMI rose to 60.6 (*c*: 60.5; *p*: 59.1), due to a record growth in factory activity, amid a sharp rise in output; and *ii*) services PMI jumped to an all-time high of 63.1 (*c*: 61.9; *p*: 60.4), as *new business* grew the most on record, supported by a solid increase in *new export orders*.

**In the EZ**, preliminary data for April’s PMIs showed that: *i*) manufacturing PMI increased to a fresh record high of 63.3 (*c*: 62; *p*: 62.5), as *output* grew for a tenth straight month; and *ii*) services PMI rose to 50.3 (*c*: 49.1; *p*: 49.6), signaling the first expansion of activity since August 2020.

**Still in the EZ**, in the ECB’s April meeting, the CB decided to: *i*) keep interest rates at 0.00%; and *ii*) maintain the PEPP quota at EUR 1.85tn until March 2022.

**In Canada**, the BoC left its key overnight rate unchanged at 0.25%, but reduced the pace of QE from CAD 4bn/week to CAD 3bn/week.

Financial Markets: Stocks Fall, Amid Growing COVID-19 Concerns; USD And Oil Down

**Market drivers**: investors’ optimism was dented by: *i*) growing concerns about rising COVID-19 infections in systemic countries, from India to Japan; and *ii*) President Biden’s plans to raise taxes on the wealthiest Americans.

**Global equities** fell w-o-w (MSCI ACWI, -0.2%, to 704). In the *US*, the S&P 500 Index finished virtually flat (-0.1%, to 4,180), as headlines on a possible capital-gains tax hike briefly rattled the markets. In the *EZ*, shares fell (Eurostoxx 50, -0.5%, to 4,013) on concerns that rising coronavirus cases could hamper the economic recovery – overshadowing strong corporate earnings.

**Fixed Income**: w-o-w global bonds remained flat (BAML Global, +0.1% to 293.0), as much as US Treasury yields (-1 bps, to 1.57%), which remained well below their 14-month highs of 1.78%, reached at the end of March.

**FX**: w-o-w, the USD weakened (DXY, -0.8%, to 90.859; EUR/USD +1.0%, to 1.210), amid signs of lower enthusiasm on the US ‘reflation trade’, and soft UST yields.

**Commodities**: Oil prices fell (Brent, -1.0% to 66.1 USD/b), as a worsening global pandemic capped prospects and gains. Gold remained flat (0.0% to 1,777 USD/Oz).



@RosaRoubini



Rosa & Roubini



Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to [info@rosa-roubini-associates.com](mailto:info@rosa-roubini-associates.com)

[www.rosa-roubini-associates.com](http://www.rosa-roubini-associates.com)

118 Pall Mall, London SW1Y 5ED

Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year