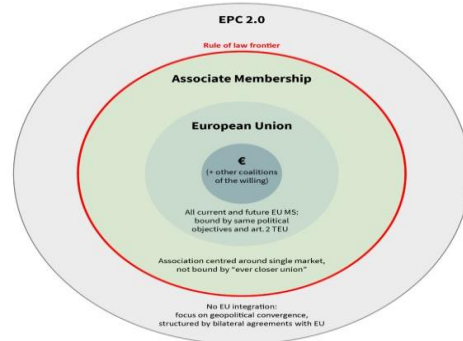




R&R Weekly Column
By Brunello Rosa



EU Enlargement and Reform Through Concentric (or Overlapping) Circles – A Reprise

Last week, a [12-person working group](#) (the so-called Group of Twelve), set up by the German and French ministers for Europe Anna Lührmann and Laurence Boone, presented [a report](#) on the possible reform of the EU’s architecture ahead of a possible enlargement to the Union that would take place in coming years. The report presents various options to change the Treaties that govern how the EU functions, as well as different solutions to make the EU decision-making process fit for the future, even in the case of it consisting of a growing number of countries.

In a nutshell, the main aim of the reform is to overcome the unanimity vote that is required for the most relevant decisions made by the EU, and to increase the instances in which qualified majorities or even simple majorities may instead be sufficient. The EU has previously experienced the implications of “enlarging” before “reforming”, [after several new member states from Central and Eastern Europe were admitted in the EU in 2004](#). Giving the veto power to new entrants, including smaller countries, has implied a significant slowdown in the decision-making process of the EU, which in some cases closely resembles sclerosis and paralysis.

In the not-so-distant future, the EU may need to enlarge further, for example to allow the accession of Ukraine, or of some West Balkans states. The accession of Ukraine would be a life-changing experience for the EU. Almost all development funds would be re-directed from the EU periphery (the South as well as the Centre-Eastern part of the EU) to Ukraine. All agricultural subsidies, which are a large component of the EU budget, would be absorbed by Ukraine. We saw in recent days an example of the conflict that could emerge as a result, when Poland threatened to suspend its supply of weapons to Ukraine [because its farmers thought that they were being damaged by the import of grains from Ukraine](#).

So, the EU needs to reform to be fit for purpose in the future also. One way it would enlarge would be by re-arranging the various forms of association within the European continent into four concentric – or [overlapping](#) - circles (see picture above). The inner circle would be represented by the eurozone, plus other “coalitions of the willing” that may want further integration in specific areas, for example through forms of “enhanced cooperation”. The second circle would be the EU.

The third circle, and the first circle to be outside of the EU (called “Associate Membership”), would be represented by nations such as “*EEA countries, Switzerland or even the UK,*” which have strong ties with the EU but “*would not be bound to ‘ever closer union’ and further integration, nor would they participate in deeper political integration in other policy areas such as Justice and Home Affairs or EU citizenship.*” Beyond this third circle, there would also be an outer circle of countries belonging to a reformed European Political Community (so-called “EPC 2.0”), which “*would not include any form of integration with binding EU law or specific rule of law requirements and would not allow access to the single market,*” so beyond what the report calls the “rule of law border” that would stop with the third circle. We have discussed the relevance of this [EPC grouping in our column of June 5th, 2023](#).

These proposals recall very closely what we [discussed in our column of May 2nd 2022](#), titled “The War In Ukraine Resurrects The Idea Of Organizing Europe In Concentric Circles,” which in turn was based on several publications I wrote several years ago (including [here](#) and [here](#)). My outer circle “Common European Space” is divided in the Group of Twelve’s report into the two outer circles “Associate Membership” and “EPC 2.0,” but – in substance – the division of concentric circles remains the same.

Most importantly, the re-grouping into concentric circles is fundamentally different from the idea of a “multi-speed” Europe. With multiple speeds, the various countries were to aim at reaching the same end-point (an “ever closer union”) at different times. With concentric circles, not only the speed, but especially the destination of countries would be different. Some countries would never join the EU, let alone the Eurozone, while remaining either closely or loosely associated with the EU; for example the UK and – say – Azerbaijan, respectively. Reforming and enlarging the EU according to the proposal of this report seems essential for the survival of the EU in the long run.

Our Recent Publications

- 🌀 [Review: In a Split Decision, The BOE Pauses After the Lower Inflation Data](#), by Brunello Rosa and Nato Balavadze, 21 September 2023
- 🌀 [Flash Review: The Fed “Skips” September, But Still Signals Another Hike in 2023](#), by Brunello Rosa and Nato Balavadze, 20 September 2023

- 🌀 [Preview: Fed To Skip The September Hike, But May Hike Again This Year](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 19 September 2023
- 🌀 [Flash Preview: BoE Set To Increase Rates, While Closely Watching Inflation Data](#), by Brunello Rosa and Nato Balavadze, 18 September 2023



Looking Ahead

The Week Ahead: QoQ GDP To Accelerate Marginally In US And UK; US PCE To Rise, While Core PCE Falls; EZ Inflation To Ease Off

In the US, in Q2, GDP growth rate is expected to accelerate slightly to 2.2% q-o-q (*p*: 2.0%). In August, PCE price index is likely to rise to 3.5% y-o-y (*p*: 3.3%), while core PCE price index is seen decreasing to 3.9% y-o-y (*p*: 4.2%).

In the EZ, in September both headline and core inflation rate are seen easing off to 4.5% y-o-y (*p*: 5.2%) and 4.8% y-o-y (*p*: 5.3%). In September, economic sentiment is expected to fall to 92.5 (*p*: 93.3) and consumer confidence is likely to shrink by -17.8 (*p*: -16.0).

In the UK, in Q2, GDP growth rate is likely to advance marginally by 0.2% q-o-q (*p*: 0.1%) and 0.4% y-o-y (*p*: 0.2%).

The Quarter Ahead: Russia Temporarily Bans Fuel Exports; UAW Expands Strike At GM And Stellantis; US Government Shutdown

Russia puts ban on diesel export. In a government decree signed by PM Mishustin, the Kremlin announced its decision to implement "temporary" limitations on diesel fuel exports, aimed at stabilizing fuel prices within the country. The ban, which is now in place and affects all nations except four former Soviet states, does not have a specified end date. The move risks disrupting fuel supplies ahead of winter and threatens to exacerbate global shortages.

Autoworkers strike expands significantly against GM and Stellantis. The UAW union increased its strikes against Detroit carmakers General Motors and Chrysler's parent company, Stellantis, but limited its strike at Ford to just one factory because of positive developments in negotiations. White House spokesperson did not confirm if Biden would visit the striking workers, despite UAW President Shawn Fain's earlier invitation.

Pending US government shutdown. On Friday, U.S. House Republicans adopted a new approach in an attempt to avoid the fourth government shutdown in ten years, as the September 30 deadline approaches rapidly. Republicans have not succeeded in moving forward with a bill to fund the government for the upcoming fiscal year starting on October 1.

Last Week's Review

Real Economy: Both Headline And Core Inflation Rates Fell In EZ And UK; Fed And BoE Maintained Their Policy Rates Unchanged

In the US, the Fed maintained its target Fed funds range at 5.25% - 5.50%.

In the EZ, in September, both headline and core inflation rates fell 5.2% y-o-y (*c*: 5.3%; *p*: 5.3%) and 5.3% y-o-y (*c*: 5.3%; *p*: 5.5%).

In the UK, in August, headline and core inflation rates eased off to 6.2% y-o-y (*c*: 6.8%; *p*: 6.9%) and to 6.2% y-o-y (*c*: 6.8%; *p*: 6.9%) respectively. In August, retail sales rose to -1.4% y-o-y (*c*: 1.2%; *p*: -3.1%) and increased by 0.4% m-o-m (*c*: 0.5%; *p*: -1.1%). In September, GfK consumer confidence rose to -21 (*c*: -27; *p*: -25).

Still in the UK, the BoE maintained its Bank Rate at 5.25%.

Financial Markets: Stock Prices Decreased; Bond Yields Were Up; Dollar Index Increased, Whereas Oil And Gold Prices Fell

Market Drivers: Investors reacted negatively to the: *i*) worries about higher interest rates; *ii*) concerns related to the UAW strike and *iii*) the possibility of a U.S. government shutdown. As a result, the main U.S. stocks fell and yields rose due to concerns about the Fed's more hawkish stance. Central banks signaled that interest rates will stay high for some time to come. In Europe, shares went down, as higher oil prices and poor business activity data dampened the economic outlook.

Global Equities: decreased w-o-w (MSCI ACWI, -2.7%, to 663.14). The US S&P 500 index edged down (-2.9% w-o-w, to 4,320.06). In the EZ, share prices were down (Eurostoxx 50, -2.0% w-o-w, to 4,207.55). In EMs, equity prices moved down (MSCI EMs, -2.1%, to 964.24) Volatility rose to 17.50 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 18.7).

Fixed Income: w-o-w, the 10-year US Treasury yields edged up (+10 bps to 4.44%). The 2-year US Treasury yields increased (+6 bps to 5.11%). The German 10-year bund yield rose (+6 bps to 2.73%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.2%, to 105.58; EUR/USD -0.1%, to 1.06). In EMs, currencies decreased (MSCI EM Currency Index, -0.3% w-o-w, to 1,672.01).

Commodities: w-o-w, oil prices decreased marginally (Brent, -0.4% to 93.56 USD/b). Gold prices decreased w-o-w (-0.1% to 1,944.90 USD/Oz).



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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

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