



R&R Weekly Column
By Brunello Rosa



The EU is on the Move, With Pacts on Fiscal Rules and Migration

At a time when populist parties are once again on the rise, [globally](#) but [in the EU in particular](#), as testified by the [recent victory by Geert Wilders in the latest Dutch general election](#), the EU has decided to respond with two major reforms.

First, the gathering of the Finance Ministers of EU countries, Ecofin, [approved the reform of the Stability and Growth Pact last week](#), which encompasses the fiscal rules for EU member states. Given the impact of the crises of the pandemic and the war in Ukraine, with its associated energy crisis, the fiscal position of many countries has become precarious, with high fiscal deficits and public (and private) debts. In January, the old and stringent fiscal rules – summarised in the so call “Fiscal Compact”- [were supposed to return in place](#). Instead, EU member states have agreed to a new set of fiscal rules.

The agreement, spearheaded by Germany and France, foresees the adoption of [bilateral agreements between the EU Commission and each member state](#) for a sustainable reduction of fiscal deficits and public debts over a period of 4 to 7 years. The old parameters (deficits no higher than 3% of GDP, debt no higher than 60% of GDP) remain in place, with additional safeguards. Countries with high debt levels (above 90% of GDP) and in “excessive deficit procedure” will have to reduce their deficit by 0.5% a year and debt by 1% a year.

Additionally, they will have to keep a “fiscal buffer” equal to 1.5% of GDP – i.e. they will have to bring their deficit to 1.5% of GDP. France (and to some extent Italy) have obtained that for the first three years (2025-27), their debt-servicing costs will not be included in the calculation of the so-called “structural deficit,” so as to reduce the amount of fiscal adjustment needed to be made. Apart from this, [it is quite obvious that Germany won the battle](#), while allowing some additional flexibility to other member states.

On the other front, the EU has also revised its immigration rules, at a time when immigration into Europe is causing political troubles to several countries including France, Italy and the UK. In France, a new immigration law has led to [the resignation of a minister of Macron’s government](#), since [Le Pen’s party has also approved the new measures](#). [Italy and the UK seem to be allied](#) in the fight against illegal immigration, with solutions being externalised to [Albania](#) and [Rwanda](#) respectively, during a time when legal immigration is reaching an all-time high.

The [new Pact on Migration and Asylum will keep the archaic Dublin rules in place](#), but foresees compensation mechanisms for those countries that refuse to host their quota of migrants who are temporarily placed in countries of first arrival (typically Greece, Italy, and Spain). They will have to pay up to 20,000 EUR for every migrant who they are not accepting to be relocated in their territory. The EU will establish new sites, located in the outskirts of the Union, in which migrants will be placed while waiting for an evaluation of their refugee status (which will be completed in 12 weeks). These new rules are not the panacea that [Metsola and Von Der Layen are flagging](#), but are a step forward compared to the old regime.

These are two concrete examples of how the 27-member elephant that is the EU can still move when required, to react to the existential threats that it is still facing.

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- ✿ [The Evolution of Philippine Maritime Security Amidst the Intensifying US-China Competition](#), by Mirko Giordani, 21 December 2023
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- ✿ [Review: BOJ Keeps Its Stance Unchanged and Remains Cautious Regarding Future Tightening](#), by Brunello Rosa and Nato Balavadze, 19 December 2023
- ✿ [Preview: BOJ To Stay On Hold In December, With the Beginning of Rate Normalization in Sight](#), by N.Roubini, Brunello Rosa and Nato Balavadze, 18 December 2023

Looking Ahead

The Week Ahead: UK Nationwide Housing To Increase; Japan's Unemployment To Stay Unchanged And Retail Sales To Rise

In the UK, in December, nationwide housing prices are seen rising to -1.4% y-o-y (*p*: -2.0%).

In Japan, in November, the unemployment rate is expected to stay the same at 2.5%. November's retail sales are likely to rise to 5.0% y-o-y (*p*: 4.2%).

The Quarter Ahead: US Retaliates Iraq; Ukraine Damages Russian Warship In Black Sea; Israel-Hamas War

US launched strikes on Iraq. The U.S. military conducted retaliatory airstrikes on Monday in Iraq following a one-way drone attack earlier in the day by militants aligned with Iran. The drone attack resulted in one U.S. service member in critical condition and two other U.S. personnel wounded. The incident reflects the broader impact of the Israel-Hamas conflict, turning U.S. bases in Iraq and Syria into targets as Iran-aligned groups oppose Israel's campaign and hold the United States partly responsible.

Ukraine strikes Russian naval landing warship. Ukraine targeted a significant Russian landing warship in Crimea with cruise missiles, resulting in at least one fatality. This attack could hinder any Russian efforts to further seize Ukrainian territory along the Black Sea coast. As reported by the Russian defence ministry, Ukraine utilized air-launched missiles to strike the Crimean port of Feodosia, causing damage to the Novocherkassk large landing ship.

Israel-Hamas War. Israel escalates military operations in the occupied West Bank. Israeli PM Netanyahu has pledged to continue the fight in Gaza until Hamas is eliminated, rejecting global calls for a ceasefire. Concerns are rising that the conflict may escalate further, potentially leading to renewed clashes between U.S. and Iran-aligned forces.

Last Week's Review

Real Economy: Headline And Core Inflation Fell In EZ And UK; Q3 GDP QoQ Advanced In US And Shrank In the UK

In the US, in Q3, according to final estimate, GDP growth advanced by 4.9% q-o-q (*c*: 5.2%; *p*: 2.1%). In November, PCE and core PCE price index decreased to 2.6% y-o-y (*c*: 2.8%; *p*: 2.9%) and 3.2% (*c*: 3.3%; *p*: 3.4%).

In the EZ, in November, both headline and core inflation rate fell to 2.4% y-o-y (*p*: 2.9%) and 3.6% y-o-y (*p*: 4.2%) as expected. In December, consumer confidence rose to -16.1 (*c*: -16.4; *p*: -16.9).

In the UK, in November, both headline and core inflation rate edged down to 3.9% y-o-y (*c*: 4.4%; *p*: 4.6%) and 5.1% y-o-y (*c*: 5.6%; *p*: 5.7%). In Q3, according to final estimate, the economy shrank by -0.1% q-o-q (*c*: 0.0%; *p*: 0.0%) and advance by 0.3% y-o-y (*c*: 0.6%; *p*: 0.6%). November's retail sales are likely to rise by 0.1% y-o-y (*c*: -1.3%; *p*: -2.5%).

Financial Markets: Stock Prices Increased; US Bond Yields Fell; Dollar Index Is Down, While Gold And Oil Prices Edged Up

Market Drivers: US stocks climbed as investors celebrated recent data indicating that inflation is approaching the Federal Reserve's 2% target. The anticipation of potential rate cuts has additionally buoyed equities in recent weeks. In the Europe, stocks declined as German companies are more pessimistic. The ongoing decline in German manufacturing sentiment raises concerns about a potential recession in the EZ's largest economy.

Global Equities: increased w-o-w (MSCI ACWI, +0.7%, to 721.17). The US S&P 500 index edged up (+0.8% w-o-w, to 4,754.163). In the EZ, share prices were down (Eurostoxx 50, -0.6% w-o-w, to 4,521.47). In EMs, equity prices increased (MSCI EMs, -0.9%, to 992.28) Volatility rose slightly to 15.04 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 18.7).

Fixed Income: w-o-w, the 10-year US Treasury yields edged down (-1 bps to 3.90%). The 2-year US Treasury yields decreased (-12 bps to 4.33%). The German 10-year bund yield edged down (-10 bps to 1.97%).

FX: w-o-w, the US Dollar Index edged down (DXY, -0.8%, to 101.7; EUR/USD +0.8%, to 1.10). In EMs, currencies edged up (MSCI EM Currency Index, +0.2% w-o-w, to 1,726.65).

Commodities: w-o-w, oil prices rose (Brent, +3.3% to 79.07 USD/b). Gold prices increased w-o-w (+1.6% to 2,069.10 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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