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## How to win friends with deglobalization and friendshoring

POLITICO Pro Morning Central Banker Europe <[centralbanker@politico.eu](mailto:centralbanker@politico.eu)>

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POLITICO Pro Morning Central Banker



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By GEOFFREY SMITH

with BEN MUNSTER, CARLO BOFFA and JOHANNA TREECK

### SNEAK PEEK

- **Migration and friendshoring through the lens** of the ECB and its regional neighbors
- **U.S. retail sales and industrial output due**, a day after China's disappointing numbers
- **Giorgia Meloni's dilemma**: succession drama at the ECB board seen narrowing down to two candidates

Good morning. Amid a largely quiet start to the week, the European Central Bank's conference on central and south-eastern Europe had a few interesting things to say on the debate over deglobalization and friendshoring on Monday.

It's hard to shake the sense that central bankers can do anything more than put a brave face on a process that they know is going to risk pushing up inflation in the medium term, as cheap Chinese labor inputs are replaced by the best available alternative in any country that doesn't present a systemic risk to the West.

"By leveraging our regional strength, Europe and the CESEE region can recreate some of the benefits of globalization on a smaller scale," President Christine Lagarde said, whereby the emphasis has to be on the words 'some' and 'smaller'. Despite two decades of decent growth, the region still only accounts for around a tenth of the eurozone's foreign trade.

Russia's invasion of Ukraine has injected a new urgency into expanding and deepening ties between the currency union and its neighbors to the south and east, who are disproportionately exposed to collateral damage from Great Power rivalry. Anita Angelovska Bezhoska, North Macedonia's central bank governor was all for talking up the region's cheap labor and cultural proximity to Europe.

In all honesty though, if it made sense to source Europe's iPhones and plastics from Skopje, you really can't help thinking someone would have done it by now. The Croatian Boris Vujcic, governor of the latest central bank to join the Eurosystem, was brutally frank in saying that what lies behind reshoring is nothing more than the reintroduction of trade barriers. As productivity falls in an attempt to improve resilience, countries are igniting a subsidy war that clearly disadvantages poorer countries, he said. Even as a representative of a country that has long benefited from EU transfers, Vujcic argued that he'd "be very careful [in assessing] how much these geopolitical changes create an opportunity for us versus how much harm they can do."

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### POLICY TICKER

ECB 3.75% ↑ — BOE 5% ↑ — FED 5.25% ↑ — SNB 1.75% ↑ — BOJ -0.10% ↓ — RBA 4.10% ↑ — PBOC 3.55% ↓ — CBR 7.5% ↓ — BOC 5% ↑

## DRIVING THE DAY

- **U.S. releases June retail sales, 2:30 p.m.,**
- **U.S. releases June industrial production, 3:15 p.m.**
- **RBA publishes minutes of its last policy meeting**

It's scheduled to be a slow news day: the U.S. releases June data for retail sales at 2:30 p.m. and industrial production at 3.15 p.m.

The Reserve Bank of Australia published the minutes of its last policy meeting, when it chose to put its tightening cycle on hold. The minutes show that the bank left rates unchanged at the beginning of July over fears that an increase could slow the economy too much, and lead to a spike in unemployment. However the bank's board said it would "reassess the situation" in August, suggesting "some further tightening" may be required to drive inflation down.

Spain may release consumer confidence data for July.

## SPEAKERS' CORNER

**WHAT KIND OF EDUCATION?** The ECB's conference on central and south-eastern Europe raised a point not often heard in the endless, high-volume row over migration.

**Asymmetrically awful:** Migration, famously, solves many of the problems facing rich European countries, if creating others at the same time. But in the migrants' home countries, the balance is almost entirely negative, with a constant drain of human capital, often from the most productive parts of the population. That condemns those who remain to life in a country that can never realize its economic potential.

**Why bother?** Such considerations led Belgian National Bank Governor Pierre Wunsch to ask, from the audience, what kind of education and training it makes sense to provide, given the high risk that richer countries will reap the benefit of poor countries' investments.

**Wrong question?** It proved too sensitive a question to answer directly. Beata Javorcik, chief economist of the European Bank for Reconstruction and Development, answered that the more important task was to reduce corruption, which she said creates the effect of a substantial increase in real wages and thus reduces the incentive for people to leave their homeland. She said she "would worry a little bit less about offering the type of training and education that would make people more marketable than their peers," and instead "focus on improving local services, improving the functioning of the country as a way of encouraging people to remain."

**Alternatively...:** North Macedonian bank head Bezhoska pointed out that people migrating from the Western Balkans often just want to be in the EU, something that North Macedonia as a country has been trying to do for quite some time. The former Yugoslav republic has had candidate status since 2006. "This is too long ... for keeping optimism in the process," she said.

**The view from Ukraine:** Sergiy Nikolaychuk, Deputy Governor of the National Bank of Ukraine, stressed the need to improve education, especially higher education, to attract refugees displaced by war back to his country. But that, as he himself admitted, is likely to clash with the reconstruction needs Ukraine will face once the war will be over, as most resources will need to be directed towards rebuilding those cities destroyed by Russia's attacks.

**Smiling through the grain pain:** Separately, Nikolaychuk also said Ukrainian farmers will be able to withstand the suspension of the Black Sea grain deal, as a smaller harvest this year has reduced the urgent need for export infrastructure. Ukrainian producers still have access to alternative routes such as railways and river ports, he argued.

## ECONOMIC INDICATORS

**INFLATION HERE TO STAY:** Soaring prices will remain a challenge across the globe in coming years, economists warn in a quarterly survey conducted by Germany's Ifo Institute and the Swiss Economic Policy Institute. Global inflation is expected to average 7 percent this year, fall to 6 percent in 2024 and ease only slowly thereafter to 5 percent in 2026, the responses from roughly 1,400 experts showed.

**Euroland:** While Europe is expected to see inflation decelerate faster than other regions of the world, it's still

expected to top the ECB's 2 percent target through 2026. The ECB's battle against rising prices will be complicated by stark divergence among euro member states: According to the survey, inflation could remain as high as 12-14 percent in Latvia while dropping to as low as 2 percent in Spain this year.

**Outside the eurozone**, Hungary is expected to suffer the most drastic inflation levels in the range of 18-20 percent even though it continues to sport the highest borrowing cost in Europe while Switzerland is the only country except for Spain expected to see inflation settle as low as 2 percent. The U.K. is forecast to report higher inflation than most eurozone member states this year, falling in the same 8-10 percent bracket as Norway and Sweden (and Italy).

**GLASS HALF-EMPTY:** China's economic momentum slowed by less than expected in the second quarter, but fresh signs of weakness in domestic demand ensured that the markets' overall reaction to a mixed bag of data was negative.

**Flattering picture:** GDP grew 0.8 percent from the first quarter, more than the 0.5 percent expected, but retail sales growth slowed to 3.1 percent on the year in June, the weakest figure this year. That went hand-in-hand with another small increase in unemployment, especially among younger people. The year-on-year figure was lower than expected at 6.3 percent, a figure that still flatters the current dynamic because of last year's lockdown-affected dip.

**Good news is bad news:** Slightly stronger-than-expected numbers for industrial production and fixed asset investment provided the fodder for a 'good news is bad news' reaction, inasmuch as they gave the authorities cover not to inject further stimulus. The People's Bank of China had played down the current weakness on Friday, describing it as "a natural phenomenon of the post-pandemic economic recovery process."

**Shaky foundations:** Gavekal Economics analysts noted that growth ought to pick up in the second half of the year, not least to a planned increase in government borrowing, but warned that "with the property market presenting a clear downside risk and policy support to that sector making no discernible impact so far, it remains too early to conclude that growth has stabilized."

## APPOINTMENTS

**NARROWING OPTIONS:** Italy's options for replacing Fabio Panetta on the ECB's executive board appear to be narrowing rapidly, as Ben's reporting here shows. In the gray corner, Piero Cipollone, a Bank of Italy deputy governor who appears to check every box an ECB board member should — except the one regarding his gender. Opposite him, Alessandra Perrazzelli, another Bol deputy who despite an impressive enough CV, is a lawyer rather than an economist.

**Best lawyer for the job:** Perrazzelli would leave the influential six-strong board split evenly between men and women, which would be a great signal to send if it didn't simultaneously mean that there were consequently more lawyers on the board than economists (Christine Lagarde and Frank Elderson in the former camp, Philip Lane and Isabel Schnabel in the latter).

**How about an economist?** You can make a case for the ECB *needing* good lawyers, given its frequent day trips to the German Constitutional Court and the mission creep evidenced by its environmental and digital currency agendas. But after the worst bout of inflation in a generation, one might think that the economist was the safer pick.

## QUOTED

"Our country doesn't just urgently need specialists, it needs workers at all levels, so that prosperity can be maintained ... We will not attract enough workers from abroad if an isolating party like the [Alternative für Deutschland] gets more and more support, and polarization comes to the fore," **Ulrike Malmendier**, one of the German government's council of economic advisors, told Funke Media at the weekend.

"By leveraging our regional strength, Europe and the CESEE region can recreate some of the benefits of globalization on a smaller scale," **President Christine Lagarde** told an ECB conference in Frankfurt on Monday.

"We have to hike next time and I expect another 25 basis-point hike for the July meeting ... For the September meeting, we will see what the data will tell us." **Bundesbank President Joachim Nagel** told Bloomberg TV in Gandhinagar on Monday.

"This time maybe we have to be a little bit more patient ... The pace of the transmission channel is maybe not as fast as it was in the past." **Nagel**, *ibid*.

“We probably have to go further [with our rate hikes] in order to see the reverse of core inflation, not only of headline inflation.” **Bank of Slovenia Governor Bostjan Vasle** said during a panel discussion at the ECB’s CESEE conference on Monday.

## WHAT WE’RE READING

- For markets, BoE communication is bottom of the class ([Reuters](#))
- Revealed: Bank of England staff handed £25m in bonuses ([Open Democracy](#))
- The BRICS currency project picks up speed ([Mises Institute](#))
- Yellen says China slowdown risks spillovers but no US recession ([Bloomberg](#))

## WHAT’S ON

*(Editor’s note: this is intended as a selective list, giving precedence to European events). All times CET.*

G20 finance ministers and central bank governors meeting concludes.

RBA publishes monetary policy meeting minutes, 3.30 a.m.

U.S. June retail sales, 2:30 p.m.

Canada June CPI, PPI, 2:30 p.m.

U.S. June industrial production, 3:15 p.m.

Federal Reserve Vice-Chair Barr speaks, 4 p.m.

ECB publishes weekly financial statements and updates on the APP/PEPP bond portfolios, 3 p.m.

U.S. NAHB survey, 4 p.m.

## HEADLINES

Here’s a recap of yesterday’s news, along with Pro articles and alerts from overnight.

### [Italy’s feminist ECB quandary](#)

Meloni has to balance competence, allegiance ... and sex.

By Ben Munster, Hannah Roberts · Jul 17, 2023, 3:49 PM

### [Bundesbank says June GDP forecasts for Germany outdated as pessimism seeps in](#)

By Johanna Treeck · Jul 17, 2023, 10:06 AM

### [Crypto faces global scrutiny over conflict of interests](#)

Global policymakers prepared two packages of measures to guide the regulatory crackdown on crypto.

By Bjarke Smith-Meyer · Jul 17, 2023, 7:00 AM

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