



R&R Weekly Column
By Brunello Rosa



The G7 Agrees On A First Step Towards Corporate Tax Harmonisation

At the end of a long meeting in London, G7 finance ministers agreed last week on the principles for a harmonisation of a global corporate tax regime, which were published in the meeting's [final communique](#). The agreement will be based on two pillars: 1) the allocation of profits among jurisdictions; and 2) a minimum corporate tax rate.

Regarding the first pillar, all multinational companies with at least a 10% profit margin will have to allocate at least 20% of the portion of their profits exceeding this 10% margin to the jurisdiction wherein the profit was generated. This is to avoid the shifting of profits towards jurisdictions with lower tax rates, a practice largely used by multinational organisations to reduce their effective tax bills.

The second pillar, meanwhile, states that countries should have “at least a 15% rate” for their corporate tax. This means that if a country imposes a lower tax rate than 15%, the country of origin of the multinational could itself levy the differential in tax, rendering ineffective the corporation’s quest of achieving a lower tax regime.

This agreement to reform the global taxation system, [defined by the signatories as “historical” and a “once in a century occasion”](#), has yet to be ratified by the G20 forum; the meeting to do so will take place in Venice on 9-10 July 2021. A further step for its global adoption will be the ratification by OECD countries, as the OECD has been since 2013 the forum in which this critical issue has been discussed. In any case, it will still take years for this agreement to become effective and operational, let alone binding.

Other obstacles may further slow the agreement’s adoption. The US, for example, had asked for the immediate suspension of the digital taxes introduced by countries such as the UK, Italy and France, taxes aimed at the US tech giants. The Europeans have refused this approach, as they want to make sure that the agreement is eventually cast into law by US Congress before giving up their only chance to tax a part of the profits by the US tech companies, which have increased massively their profits during the pandemic.

Our impression regarding this agreement is mixed. On the one hand, [as we discussed in our previous column](#), the agreement is certainly welcome as a necessary first step towards corporate tax harmonisation, which if accomplished will reduce the race to the bottom that exists at the global level where corporate taxes are concerned. [In a tweet](#), US Treasury Secretary Janet Yellen said that “the global minimum tax would also help the global economy thrive, by levelling the playing field for businesses and encouraging countries to compete on positive bases, such as educating and training our work forces and investing in research and development and infrastructure.” In other words, this agreement could be the cornerstone for starting to reduce inequality within countries, and not just between countries.

On the other hand, we are a bit concerned that the implementation phase of this agreement may be very slow. It could take years before all of the G20 countries, let alone all of the 37 OECD countries, ratify this agreement and put it into law. Meanwhile, large corporations can still find hundreds of other ways to elude paying taxes on their gigantic profits. Thus it seems to us that the agreement of moving at least 20% of the profits above the 10% threshold may be too timid. A much more effective solution would have been a tax based on revenues rather than profits, as revenues are more easily attributable to specific jurisdictions.

Having said all this, it seems to us that the G7 has taken a very important step in the right direction. The other commitments undertaken at this meeting, regarding central bank digital currencies (CBDCs), support to low-income countries, and financing to combat climate change and biodiversity loss, were also significant.

Our Recent Publications

 [Flash Preview: Bank Of Canada On Hold, With Markets Awaiting Signals From the Bank](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 4 June 2021



 [GEOPOLITICAL CORNER: All Politics Is Local: Making Sense Of The Israeli-Palestinian Crisis](#), by John C. Hulsman, 1 June 2021

Looking Ahead

The Week Ahead: US Exports To Increase And Japan's GDP Growth Rate Is Expected To Surge

In the US, exports for April are expected to increase slightly to USD 204bn (p: USD 200.03m) and imports are expected to slow down to 273bn (p: USD 274.48bn).

In Japan, final GDP growth rate for Q1 is expected to increase to 2.8% q-o-q (p: -1.3%) and annualized GDP growth rate is expected to surge by 11.0% (p: -5.1%).

The Quarter Ahead: Global Food Prices Surge; WHO Approves Sinovac; US-China Relations Deteriorate

As the global economy rebounds, growth will likely be uneven.

Globally, in May, global food prices surged (one closely watched index jumped by 40%), heightening fears that inflation - initially stoked by pandemic disruption - is accelerating. The y-o-y rise in the UN Food and Agriculture Organization's monthly index was the largest jump since 2011.

Going forward, inflation will likely rise across DMs and EMs, as: 1) higher commodity prices are passed through; and 2) supply shortages lift prices. Rising inflation will increase inequality: in DMs, the cost of raw materials accounts for only part of the final price paid for products at supermarkets and restaurants. Higher inflation will hit EMs reliant on 'staple goods imports'.

The WHO validated the Sinovac-CoronaVac COVID-19 vaccine for emergency use, providing the "assurance that it meets international standards for safety, efficacy and manufacturing". The vaccine's efficacy results showed that it prevented symptomatic disease in 51% of those vaccinated and severe COVID-19 and hospitalization in 100% of the studied cases.

President Joe Biden is enforcing a new executive order that bans investment in 59 Chinese companies - including Huawei effective from August 2. The new decision prevents US "investments in Chinese companies with suspected ties to the Chinese Communist Party". With the new sanctions in place, Mr. Biden is reinforcing the hard stance against China's intelligence and security research firms - started during former President Donald Trump's four-year term.

The US Fed announced that it will begin winding down purchases of corporate assets, started during the pandemic to shore up the economy. In a statement, the central bank said "the facility was crucial to businesses during the depth of the recession, but as the economy rapidly recovers, the time to start winding it down has begun".

Last Week's Review

Real Economy: DM Labor Market Improves, As Consumption And Prices Continue To Spike

In the US, May's labor market data showed: i) non-farm payrolls increasing below-consensus to 559k (c: 650k; p: 278k) - leaving employment about 7.6m jobs below its peak of February 2020; ii) average hourly earnings rising above-consensus by 2% y-o-y (c: -0.4%; p: 0.4%) - as rising demand for labor, driven by a fast recovery from the pandemic, puts upward pressure on wages; and iii) the unemployment rate fell more-than-expected to 5.8% (c: 5.9%; p: 6.0%), marking the lowest rate since March 2020.

In the EZ, April's retail sales jumped the most on record, due to the low base effect (a: 23.9% y-o-y; c: 25.5%; p: 13.1%) - but remained below-consensus.

Still in the EZ, the inflation rate accelerated to 2.0% y-o-y (c: 1.9%; p: 1.6%), reaching the highest reading since October of 2018, with core-inflation rising in-line with expectations to 0.9% y-o-y (c: 0.9%; p: 0.7%).

In Australia, in its June meeting, the RBA kept its interest rate unchanged at 0.10%, as expected. Policymakers reaffirmed their commitment to maintaining supportive monetary conditions until at least 2024, when inflation is expected within the 2-3% target.

Financial Markets: Global Equities And Bonds Rise; USD Gains; Oil Prices Hit 2 Year High

Market drivers: investor sentiment improved, as the US job market readings supported the Fed's "ultra-accommodative stance until the economy has further recovered".

Global equities rose w-o-w (MSCI ACWI, +0.7%, to 716). In the US, the S&P 500 Index rose (+0.6% w-o-w, to 4,230), as: i) energy shares over-performed, as oil prices reached their highest level in two years; and ii) consumer discretionary shares lagged, weighed down by a fall in Tesla. In the EZ, European shares rose (Eurostoxx 50, +0.5%, to 4,089), amid optimism of an economic recovery.

Fixed Income: w-o-w global bonds rose (BAML Global, +0.1% to 293.0) and UST yields fell (-3bps, to 1.56%), after the payroll report showed the US economy in May created fewer jobs than expected.

FX: w-o-w, the USD rose (DXY, +0.1%, to 90.136; EUR/USD -0.2%, to 1.217).

Commodities: Oil prices rose (Brent, 3.2% to 71.9 USD/b), supported by a recovery in fuel demand - the first time in over two years. Gold prices fell (-0.7% to 1,890 USD/Oz) as UST yields retreated further.



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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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