



LA LETTRE DU 211

Editorial - "[2021] I gave you my heart / but the very next day, you gave it away"

'When a dream dies / and a heart cries / Shadaroba / Is the word they whisper alone' sang Roy Orbison. 2021 begins as 2020 ended, in unspeakable sadness. But, 'Shahdaroba, Shadaroba / Means the future is much better than the past': 'Haut les coeurs !' is our call, and this is with pride that we, the master 211, present our first newsletter. In this bi-monthly newsletter, we will provide you with the highlights of economic news that have caught our eyes, and our analysis on topics as diverse as financial markets, country risk, environment and many other topics equally exciting. 'Shahdaroba, Shahdaroba / Face the future and forget about the past'. Indeed, this newsletter is, above all, the bearer of our hope; may it reach the reader and our contract is fulfilled. In one word: 'Shahdaroba'!

Macro news

This week's definition

Zombie firms: non-financial corporations (NFCs) aged 10 years or more, that are unproductive with annual results insufficient to cover the interests on their debt, making it increase even more. They owe their survival to loans granted with low interest rates, otherwise they would exit the competitive market.

Why do we speak about them? The gross debt of NFCs which includes bank loans and bonds, increased to 84.7% of GDP (Q2-2020, Banque de France) from 73.5% in 2019 in France. In the meantime, the number of firms that should have gone bankrupt decreased by 36.1% in November 2020 compared to 2019 (y-o-y). Concerns are thus rising that the granting of State-guaranteed loans contributes to the increase in the number of zombie firms by keeping them artificially alive, and prevents Schumpeterian creative destruction from working: by being unproductive, those firms decrease the general level of productivity meanwhile their bankruptcy could allow reallocation of capital to more innovative and productive companies. But more importantly, as a wave of companies bankruptcies is expected this year, the challenge will be to reduce as much as possible the failures of companies that would be profitable in a non-Covid context, and to avoid the safeguard of unprofitable companies; in both cases the aggregate productivity would be dampened. For more information on the topic, see the press review.

Emerging countries focus

Extension of DSSI initiative on track

A second phase for debt service suspension initiative (DSSI) was launched in order to extend to the first half of 2021 the time-bound suspension of debt service. The initial phase, a Paris Club/G20 initiative, started in April 2020 and provides debt relief by postponing debt service. It aims to alleviate liquidity pressures for 73 recognized eligible IDA countries experiencing revenue shortfalls and a subsequent rise in expenditure in the midst of the Covid-19 crisis. The payments covered are not forgiven but delayed, with a repayment period of three years and a one-year grace period. The DSSI initiative has proved efficient, as bilateral donors accepted to defer approximately \$5 billion of debt service. Eligible countries commit to devote these freed-up resources to health, social and economic spending to cope with the consequences of the Covid-19 crisis. Some countries were reluctant to join the initiative, as it could be seen as a bad signal, which could translate into sovereign credit rating and outlook downgrades by rating agencies. For the moment, the DSSI only covers official debt, as private investors have decided to step aside from the beginning.



Mexico's remesas reaching best records in 2021

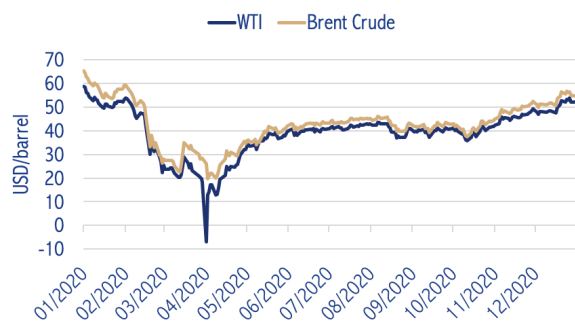
Despite the pandemic-induced crisis, Mexico's remittance inflows reached records by the last 2020 quarter. The six best months for remittances sent in Mexico were all in 2020. These *remesas* are mainly sent by Mexicans (or Americans from Mexico) living in the USA in order to support their family stayed in the country. Meanwhile, the other world's emerging economies register severe declines in remittances: the latest World Bank's estimation forecasts remittances (at a global level) to shrink by 14% in 2021 compared to 2019 pre-pandemic levels. Mexico historic records are due to Fed's liquidity injections to face the crisis and also to travel restrictions set up in 2020. Indeed, Mexican people in the USA that used to travel in Mexico with cash are now forced to send money by online or bank transfers. According to the economist Alberto Ramos in *El Financiero*, remittances sent to Mexico are a solid 'support to the current account and to private consumption', especially for low-income families because of their high consumption propensity. He estimates that the Mexican dependency on remesas could reach the record of 3.8% of GDP, because of the rise in remittances on one hand and the economic contraction, on the other hand, both due to the pandemic.

Markets news

Oil market: bullish but for how long?

Oil prices have rallied in recent weeks, with Brent Crude and WTI hit record high since the start of the Covid-19 crisis, supported by optimism over vaccine roll-outs and a surprise oil production cut from Saudi Arabia. The last one will cut 1 million barrels per day of oil of its own production in February and March. Other OPEC+ producers will continue at their current pace, except for Russia and Kazakhstan, which will increase production lightly. But will the oil market continue its rally while doubts over global economic recovery for H1 (first half year) emerged?

If we bet on a fast economic recovery related to the control of mutations, the effectiveness of vaccines developed and the lifting of travel restrictions, a bullish oil market is likely to continue. However, this scenario seems optimistic. Oil prices are more likely to stay on a \$50-\$55 range, as the emergence of new strains, renewed lockdown in China and logistical hurdles facing vaccine roll-outs contributed to a gloomier outlook.



As of January 18th

Corporate news

French government clings to Carrefour

The Canadian Alimentation firm Couche-Tard recently dropped its €16.2 billion takeover bid for the acquiring of French food retail group Carrefour. The talks went officially public last week but the news triggered a stiff opposition from the French Government, as Bruno Le Maire, French Minister for Economy and Finance, announced on Friday 15 that his refusal was irrevocable. According to foreign investment regulations, which allow the French State to veto an acquisition transaction, he had previously informed the CEO of Couche-Tard that he would oppose the deal. Carrefour, as one of the leading groups on grocery distribution, represents a 'vital link for France's food sovereignty and security', justified Mr. Le Maire. Couche-Tard, founded in 1980, built its development strategy on the operation of grocery stores in Quebec, Canada, and then on the U.S. market. In 2019, the group operated 16,000 superstores in 25 countries, employing more than 130,000 people and generating sales of \$59.1 billion (compared with \$80.7 billion for Carrefour). While the main objective of this friendly acquisition was to enable the Canadian group to enter the European

food market, Carrefour's status as France's largest private employer has led the French Ministry of the Economy to fear risks for jobs and suppliers of the French brand.

Climate focus

Towards a greener recovery in 2021?

The French government introduced at the end of last year alongside with the 'Projet de loi de finances' its 'Green Budget', a new classification that aims to identify environmental impacts regarding the state's public spending in 2021. Out of the €574 billion, €38 billion are considered as entirely favourable to the environment and will be used for public transportation, renewable energies and reduce building's energy consumption, representing a 29% increase compared to 2020. However, around €15 billion remain unfavourable to the ecological transition.

Press review

On climate

- Let's make our planet green again: [Obligation de transparence des institutions financières sur leur empreinte climatique et financement des énergies fossiles](#), J.S. Mésonnier, B. Nguyen (Banque de France)
- [Energie : « Un mix électrique majoritairement nucléaire n'est pas la meilleure option économique »](#), Q. Perrier, P. Quirion, B. Shirzadeh (Le Monde)

On rationality

- [How a herd of cows trampled on human stockpickers](#), R. Wigglesworth (Financial Times) : When a cow understands the markets like a human, what a life.

On debt

- [Y a-t-il des limites à l'endettement public ?](#), F. Ecalte (Fipeco): Limit or not limit, that is the question
- [2021, l'année des zombies ?](#) A. Bénassy-Quéré (DGT)
- [A fiscal policy for all seasons](#), FT Editorial (Financial Times): Vivaldi

On secular stagnation

- [Less lower for longer; more higher and sooner](#), C. Goodhart (Princeton BCF) : Up.
- [Demographics and the natural real interest rate: historical and projected paths for the euro area](#), A. Papetti (ECB): Not up.

On State investment

- R.Lambert lecture on D.Sainsbury book: [Windows of opportunity](#) (Financial Times)
- J.Kay lecture on M.Mazzucato book: [Mission Economy](#) (Financial Times)

Our readings:

- [The Great Reversal](#) (T. Philippon): whether we agree or disagree with the author's thesis (here, we agree), this book is, above all, what every economics book should be. A must-read.
- [The Thibaults](#) (R. Martin du Gard): a family story, with love, heroism, politics, war, life actually, a monumental fresco in the heart of the Third Republic. Masterpiece (well worth a Nobel Prize)