



# LA LETTRE DU 211

## Editorial - 'Words don't come easy to me/This is [Neoliberalism/socialism] (...)'

*"The economist must possess a rare combination of gifts. He must be mathematician, historian, statesman, philosopher (...)" wrote one day Keynes. Isn't the risk for "The [economist] resembles this prince of cloud and sky (...)/ His giants wings prevent him from walking" as Baudelaire almost wrote? Yet, so many intellectuals seem to reduce the complexity of the world to a simple abstract word: The problem is this, the problem is that. Shouldn't we have in mind these words of Felix Eboué: '(...) say "What do I know?" with Montaigne, and "Maybe!" with Rabelais'? Or perhaps, the economist should reread Peanuts, and be on the roof (and not through the roof): from there, Snoopy can watch the sky and ask: 'The stars, the stars shining up above (...)/ Tell me stars why I look to you' as Melody Gardot sings.*

## Macro news

### Worst recession since World War II

Since last week, several national statistical institutes have been releasing their 2020 GDP growth. Europe appears to have experienced a more severe economic downturn (probably with Latin America). France, Spain and Germany slowed by -8.3%, -11% and -5.2% respectively. Meanwhile, the United States seems more resilient with a negative growth rate of -3.2%.

**Why such disparities?** As we may face a third lockdown in France, containment measures in the United-States are less restrictive and uneven across the country, thus preventing a sudden stop in activity. As a result, private consumption decreased by -7.1% and -12.4% in France and Spain compared to -3.9% in the US. The same goes for investment with a growth rate of -1.8% thanks to generous monetary and budgetary support in the US. Travels restrictions have also been weighted, especially for countries that are highly dependent on tourism activities/revenues. Indeed, tourism sector accounts for only 3% of GDP for both Germany and the United States, compared with 10% and 12% for France and Spain.

Further analysis will be possible with the release from Italy and the United Kingdom's statistics and will provide a better economic overview of European countries during the pandemic. Although future growth rates are forecasted to be strongly positive for 2021, uncertainties about vaccines and contaminations remain.

## Emerging countries focus

### The Inequality Virus

*'Billionaire fortunes returned to their pre-pandemic highs in just nine months, while recovery for the world's poorest people could take over a decade.'*

The annual charity [Oxfam inequality report](#) ([click here](#)) released on 25 January 2021 outlines that the current pandemic can lead to a rise in inequality in almost every country at once. The virus has exposed and fed off already existing inequality. This report notably predicts 'a tough economic future for the poorest countries'. In October 2020, an article published in the IMF Blog was already forecasting a 'reversal of gains': the pandemic would wipe out inequality improvements made since 2008 in emerging countries. The World Bank also warned that more than 150 million people would be forced into extreme poverty by 2021 due to the pandemic that hit the poor and vulnerable hardest. Global extreme poverty is then expected to rise for the first time in 20 years. Besides, the WB estimates that most of the new poor will be in countries with already high poverty rates. Thereby, inequality both across and within countries is expected to increase. Meanwhile, according to the Oxfam report, the 10 richest's net worth (including the French Bernard Arnault) increased by \$540 bn between March and December 2020.



### Rising external vulnerabilities in Turkey amid Covid-19

As the clear leader of the conduct of the economic and monetary policy, President Erdoğan responded to the Covid-19 crisis by an expansive policy mix. The main interest rate was cut, thereby promoting private sector credit growth (35% change y.o.y in 2020) and depriving the Central Bank of its monetary policy exclusive control and credibility. Nevertheless, economic recession hit Turkey (-5% of GDP in 2020), and these political decisions worsened domestic and external vulnerabilities. The Turkish model relies on foreign investors inflows and its economy has indeed been stimulated by externally-funded credit for years. It has contributed to enhance dollarization in banks and to increase external financing dependency. As of end 2020, the country is experiencing reserves pressure (representing 2 months of imports) and high inflation (11,9% y.o.y). Facing these challenges, monetary policy finally tightening in July and less lending (notably to SOEs) helped contain the depreciation of the Turkish lira. However, further loss of confidence amongst foreign investors could intensify pressures and risks. The IMF concluded its [2021 Article IV Statement](#) ([click here](#)) by inviting Turkey to rebalance its policy mix and increase external buffers, among a wide package of structural reforms.

## Markets news

### Don't stop believin'

Until mid-January, Gamestop was only an American company specialized in video games retailing, its shares being worth around \$20. Founded in 1991 and based in Grapevine (Texas, USA), Gamestop has been struggling for the past two years, recording losses estimated at \$1.4 bn between 2018 and 2020. In the midst of this worrying financial situation, Gamestop has become the main target of hedge funds, the company's stock having been the most short-sold on the American stock exchange in 2020. The practice of short selling, which involves borrowing corporate shares that are expected to decline in price in order to sell them and buy them back at a lower price to realize a capital gain, involves several risks. Indeed, if the stock goes up instead of down, the losses can potentially be very high for hedge funds. It is precisely this risk that the members of the 'Wallstreetbets' novice investors gathered on the reddit forum, exploited by massively buying back the shares shorted by hedge funds. The company's share price soared, following a tweet published by Elon Musk, Tesla's founder and main shareholder, to reach a peak around \$480 on January 28th. This 1,600% increase in share value on the stock market has, however, raised concerns in the financial community and led Robinhood, the financial services company used by Reddit traders, to halt the purchase of many stocks, including Gamestop's, from its trading platform. Beyond high volatility risks, the legal character of those massive transactions is to be considered by the Securities and Exchange Commission (SEC), given the previous concertation and huge earnings of those Reddit users. The real motive - firstly political - and the opacity of the 'Wallstreetbets' forum also need to be clarified.

#### What happens next ?

Although hedge funds such as Melvin Capital - which has suffered a \$4,5 bn loss - were the main targets of those financial operations, the extent of Gamestop's story has now deepened. A recent article from the Financial Times pointed out that the 'Wallstreetbets' retail traders were now steering their investments on the silver market, in what appears to be an attempt 'to put a squeeze on banks' - that had supposedly taken short positions. Still, the relevance of such movements needs to be questioned, so as the broader impact and disorder brought by massive and concerted retail trading on financial markets.

GameStop Corp., share price (\$)



## Climate focus

### Renewables: EU's main power source

For the first time, renewables are the main power source in the European energy grid. Renewables generated 38% of the electricity in the EU in 2020, up from 34% in 2019. According to the [study released by research organizations Ember and Agora Energiewende \(click here\)](#), it was just enough to surpass fossil-powered generation for the first time, which fell to 37%. Investment in wind and solar power was the chief driver of decarbonization, with wind generation increasing by 9% and solar by 15% while coal production fell 20% on the same time.

However, this is not all good news: the think tanks reported that the energy transition continues to take place too slowly to meet the EU target of reducing greenhouse gas emissions by 55% by 2030 and carbon neutrality by 2050.

### Press review

(clickable link)

#### On Public Finance

- [Les 20 ans de la LOLF](#), F.Ecalte (Fipeco): So much LOL.
- [Health Assurance](#), F. Ecalte (Fipeco): Salvador would have say work.
- [Interview with O.Blanchard on Public Debt](#), (Les Echos): Les mots bleus.
- [Cantonnement ou Annulation, un débat sans issue](#), S.Vallée & E.Monnet: Shadoks.

#### On innovation

- [Innovation pharmaceutique, comment combler le retard français ?](#), M.Kyle & A.Perrot (Cae-eco) : Thanks to 66 millions prosecutors?
- [The Weak Links in China's Drive for semi-conductors](#), M.Duchatel (Institut Montaigne): Semi-marathon.

#### On ECB

- [Le climat fait-il ou non partie du mandat de la BCE ?](#), J.Coupepy-Soubeyran: You have to.
- [L'inquiétante dérive doctrinale de la BCE](#), D.Thesmar & A.Landier (Les Echos): You don't have to.

#### On philosophy

- [How not to contrarian](#), J.Kelly (FT) : Amen.
- [L'économie post-covid](#), D.Thesmar & A.Landier (Les Echos): Adam Smith was a philosopher.

#### Our readings:

- [De la démocratie en Amérique](#) (A. de Tocqueville): When the elegance of writing serves a powerful purpose, when the other allows us to understand what we are, when almost 150 years later it's still being read, it means that Tocqueville has achieved something.
- [Les Justes](#) (A.Camus): 'You have to be very sure that day will come to destroy everything that makes a man willing to keep on living'. Word to the wise.