

## NICOLAS VÉRON

Senior Fellow at Bruegel, Senior Fellow at the Peterson Institute for International Economics

**Lionel Zinsou, Co-Chair of SouthBridge, Chairman of Terra Nova think tank, former Prime Minister of Benin**

To start searching for answers, I give Nicolas Véron the floor.

### Nicolas Véron

Looking back at the period since early 2020, I would like to start by observing some pieces of good news. Of course, the pandemic has been an incredible tragedy with millions of casualties from the virus and this dominates everything. I live in Washington DC and there is now a very powerful art installation on the National Mall just below the Washington Monument, with one little white flag for each American who has died from Covid-19 since the beginning of the pandemic. I think that this of course should dominate any perception of what has happened in the last year and a half. However, there has been some good news and I will go through some of that.

One, which sounds so obvious that we are not debating it anymore but that I think should not be taken for granted, is that essentially all countries have put lives first in their public policy reaction to the pandemic. Now we know that lockdown strategies are the first response to the virus, especially at the beginning when there was no vaccine, but this should not be taken for granted. China, the country where the virus first appeared, invented an incredibly disruptive strategy when it locked down Wuhan. We have now forgotten how disruptive that was. I remember when I heard the news of the Wuhan lockdown, I could not believe it. I did not think it was possible to lock down an entire megacity for health reasons. The Chinese government, which is often accused of putting the economy before people, put the people before the economy. It took a very early and clear decision that they would not let economic imperatives get in the way of protecting lives. I think this is inspiring despite all the other issues with human rights that exist in China, and it has been emulated all over the world.

There has been an incredible effort of scientific cooperation. I think we rightly see our world as one that is dominated by risks of fragmentation, decoupling, and escalation between great powers. However, if you look at the strategies to mitigate the pandemic and find responses thanks to science, they have been largely collaborative.

The vaccines are also an indication of that. Vaccines have come incredibly quickly, in a way that is really without precedent in the history of vaccination and healthcare. Of course, there are a lot of inequalities in the implementation, and we should all see this as a challenge. Probably, all of us here are among the first 1% or 2% of vaccinated people on the planet and

we should be aware of our privilege. Nevertheless, I think the discovery and deployment of the vaccines has been amazingly successful and a real response to the crisis.

Lionel, you alluded to the possible results of this pandemic in terms of political trends. Joe Biden was elected President of the United States against Donald Trump and I think if we look at the fundamentals and a number of studies, it is probable though we will never know for sure, that without the pandemic Donald Trump would have been re-elected. Therefore, the notion that hardship immediately creates a ground for populism is not indicated by our experience. In fact, you see similar trends if you look at the European Union. The last election in Germany was a triumph for moderate centrism. The four main parties that came first this time, center-right, center-left, liberals and green, increased their total share of the votes; the radical parties on the far-left and far-right saw theirs decrease. I for one expect something similar to happen next year in my country, France, even though it is too early to be sure of anything. More importantly perhaps, the European Union has reacted very vigorously to the threat of the pandemic, which did create risks of fragmentation early on, with its completely unprecedented Next Generation EU program. It is not only a lot of money, but it is also the first time that transfers of that magnitude have been agreed between member states. Perhaps even more importantly for those of us in finance, for the first time there has been massive amounts of borrowing by the European Union in its own name, which can potentially create a new benchmark for markets and new safe assets, if you will. There have been some auctions where EU debt has actually been priced at a level that is more secure, at lower yield, than even German sovereign debt of the same maturity. I think this apparent benign political effect of the pandemic is not only a rich country phenomenon if you look at the trends, for example, with the prospects for the Brazilian election. You could say it is left-wing populism versus right-wing populism, but I think many of us will agree that Bolsonaro's populism is more disruptive and more threatening than Lula's. What we see as the prospects for that election, to take only one example among large emerging countries, is also reassuring on that matter.

I do not want to make it sound that everything is all right in the world, because it is not, and I started with the number of deaths and the misery created by the pandemic. Let me just mention a few uncertainties about the outlook. The first comes from the virus itself because it is still with us massively and it keeps mutating, and we are not confident that we will not get a variant that completely changes the equation. As has been the case continuously for the past 18 months or more, the virus is the number one driver of the outlook. It is a very short-term driver because it can give us very short-term moves and therefore nothing can be taken for granted at this point. As it has been the case continuously for the last 18 months, it is a moment of very high uncertainty.

The response to the virus, in terms of vaccines and vaccination, is the second uncertainty factor. We have seen reasonably good take up of the vaccine in a number of countries, but we have also seen it plateauing in some, particularly the US. It started early but it now has very low rates of vaccination compared to the potential and at this point it is clear that it is not due to supply problems but to low acceptance by the population. It is not only the US; there are many countries, including poor ones, where people are very reluctant to accept the vaccine because they do not trust the authorities. This is a major risk for the economic outlook because we need people to get vaccinated if we want to return to normal economic functioning.

The third uncertainty, as you mentioned Lionel, is that we do not understand supply chains that react to the current stress in a way that nobody could have precisely foreseen. We will have more problems with scarcity and difficulties of adjustment, with read-across in terms of inflation, which frankly I do not think any economist can predict with certainty at this point. I for one follow and approve the stance of the main central banks, both the Federal Reserve and the ECB have a difficult job and I think their current approach makes sense to me, but there can be no confidence that it will be proved correct ex post when we know what will have happened in the meantime. Here again there is massive uncertainty.

Finally, we mentioned all the pleasant surprises in terms of the rebound and the economic outlook at the moment, but there are very high debt levels everywhere in the world, increasing in rich and poor countries alike. Therefore, we are not well-protected against government debt crises, particularly in poor countries and that has to be a continuous concern going forward. So far, there have been good surprises, but I think there could be a number of game changers, not everywhere but in a number of countries, if conditions become a bit less benign.

I will stop there and look forward to our discussion. Thank you very much for having me.

### **Lionel Zinsou**

Thank you very much, Nicolas. I think it was very interesting for us to hear you mention the cooperative and collaborative response we have seen in certain cases during this pandemic, as well as the speed of the availability of vaccines, even if the African people on this stage have a bit of a different view. It has been a very collaborative situation between the major powers, the richest countries, so it really is a shame in terms of international cooperation and remains so in a sense, vis-à-vis certain countries. The nationalism in vaccination has been such that even if the African Union has been very well-organized in terms of logistics and financing, in a sense it has been outside the market for access to vaccines and that is a bit of an issue. Despite that, in terms of the health impact in Africa, it is less than one-tenth of that observed in Europe. However, it could well become far more dangerous today with this very low level of 3% of the African population vaccinated, but there were some elements of collaboration.

You also mentioned that the EU has changed some of its policies and has been efficient in a sense. I would also say that we have seen that on other continents and again, the African Union in terms of debt management, for example and development of the SDR, the *droits de tirage spéciaux* distribution has been very well-organized together with the European Union. I think that there has been some progress in terms of collective governance, as you mentioned, and they are important.

You also said that central banks have been efficient and the fact that there is no panic about inflation today, with more uncertainties, but monitored carefully by the central banks. I think the central banks across the world have been very important players during this pandemic, even though it may be clearer in OECD countries or China, than in emerging and developing countries. Thank you very much and I think we will come back to this question of inflation.