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November/December 2024

What does a Trump Presidency mean?

One of the reasons Americans voted for Trump was his promise to curb inflation. But a tariff policy threatens both inflation and rate rises ahead.

The Corporate View

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Head of Treasury, M&A and Corporate Developmen

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When preparation pays

"Our job, to put it narrowly, is to be prepared for either eventuality," one treasurer at a US corporation told Treasury Today in response to our questions on the treasury implications of a Harris or Trump win in the election. Trump won a resounding victory and this edition's Insight and Analysis explores some of his key election promises.

Trump's pledge to roll out tariffs will have an impact on already strained trade and supply chains. Our Question Answered draws on the expertise of Thomas Mehlkopf, Gopul Shah and Mark van Ommen to explore how companies can navigate supply chain risk like shipping bottlenecks and payment complexities behind new D2C flows. Shah explains that ESG is one of the biggest risks at Golden Agri-Resources and shares the role of treasury integrating sustainability at the company.

From deepfake CFOs to large scale theft, cyberattacks are another risk treasury needs to ward against. We explore how the rise of AI is changing the arms race between threat actors and defenders and the benefits for treasury. Elsewhere we look at how the threat of severe weather-related shocks is moving up the risk agenda for corporates.

Our payments feature explores how account-to-account payment systems are gaining traction across many parts of the world although interoperability remains a long way off. We explore how regulatory divergence continues to stymie A2A growth and more consistency is required to drive consumer demand for account-to-account payments.

Alongside this kind of deep knowledge and technical expertise, soft skills are just as important when it comes to gaining influence and progressing our careers. Attributes such as stakeholder management, emotional intelligence and effective communication are becoming increasingly important alongside technical prowess for treasury professionals everywhere.

Skills encapsulated in the career of Interfood Group's Vincent Almering who jumped into treasury at the deep end when he joined the Dutch dairy commodity group. His career is testimony to the importance of learning on the job and seizing opportunities when they appear in a fast-paced environment managing liquidity, derivatives and changing bank relationships.

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Trump's commanding election victory signposts sweeping protectionist trade policies with implications for inflation and interest rates. Companies will face more pressure to restructure their supply chains, but Republican's control of the House and Senate suggests less regulatory whiplash. Bitcoin and the fossil fuel industry are some of the big winners.

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The Corporate View

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Vincent Almering, Head of Treasury at Dutch dairy commodity group Interfood discusses the importance of seizing career opportunities and the thrill of working in a fast-paced environment managing liquidity, derivatives and changing bank relationships.

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Double-edged sword

From deepfake CFOs to supply chain attacks, treasurers are concerned about the risk of cyberattacks – so how is the rise of AI changing the arms race between threat actors and defenders?

Trump presidency threatens tariffs, inflation and higher interest rates

Donald Trump's commanding election victory signposts sweeping protectionist trade policies with implications for inflation and interest rates. His Presidency is likely to put more pressure on companies to restructure their supply chains but his [likely, at the time of writing] control of the House and Senate suggests less regulatory whiplash. Bitcoin and the fossil fuel industry are some of the big winners.

In the build up to Donald Trump's commanding election victory, corporate treasurers in America told Treasury Today that it was their job to prepare for either a Trump or Harris win. Behind their concerns, the message was business as usual and confidence that their experience in navigating through political cycles stood them in good stead.

Still, Trump's protectionist policies on tariffs and trade promise a departure from decades of US economic policy with potentially profound implications for companies around the world. Tariffs are expected to push up inflation and interest rates, and companies will face more pressure to reshape their supply chains away from China. Elsewhere, he has pledged sweeping tax cuts that could reduce corporate tax to 15% in a bid to boost growth and jobs and has promised to cut immigration with implications for industries reliant on immigrant labour.

Trump's protectionist trade policies threaten a universal tariff of 10% to 20% on all imports and as high as 60% on goods from China, backed by his belief that tariffs will protect American jobs and industries by promoting reshoring; incentivise domestic production and reduce reliance on foreign imports. In contrast to Harris, his policies hold implications beyond strategic sectors to businesses like fast moving consumer goods.

"There is no reason he won't do it," said Menno Middeldorp, Global Head of Rabo Research where a baseline scenario assumed a Trump victory. Speaking at the Working Capital Forum in Amsterdam on the day of the election he said, "it fits into his idea of how the economy works, and he can do it. The President has the power to introduce tariffs."

US tariffs could trigger a series of tit-for-tat measures. For example, during his first presidency, tariffs on steel and aluminium sparked retaliatory tariffs from Canada and the European Union which targeted US agricultural exports. A cycle of escalating tensions could harm economies on both sides. Investment bank UBS warned it could result in a downturn in share prices for US multinationals that rely heavily on international supply chains, projecting that a 10% tariff could lead to a 10% contraction in the stock market.

One industry closely watching developments is the tech industry. Companies like Nvidia and Apple rely on Taiwan Semiconductor Manufacturing Company to produce their chips. New tariffs on Taiwanese imports could raise the costs

or disrupt the supply of AI chips. These companies will also feel the impact of higher tariffs on imports from China where they have far-reaching supply chains.

Tariffs could also trigger inflation and higher interest rates. A report from the Peterson Institute for International Economics predicts that inflation rate could rise to between 6% and 9.3% by 2026 under Trump compared to an estimate of 1.9% without his policies. US consumers could lose between US$46bn and US$78bn in spending power a year if Trump's proposed tariffs were implemented, the National Retail Federation recently estimated.

Meanwhile, high inflation will reduce the ability of central banks to cut interest rates, warns Middeldorp who flags the likelihood of higher interest rates and fewer rate cuts in both the US and Europe, predicting long-term interest rates will also move up. Although Trump has indicated his desire to weaken the dollar, his economic policies could do the opposite.

In many ways, companies with a large exposure to China in their supply chain are well prepared. They have used the years since Trump was last in power to diversify their supply chains. Biden also viewed China as a key geopolitical competitor and corporates have drawn on subsidies and tax credits to onshore and near shore. A Trump presidency means companies will just step up an adaption already underway, says Ruben Nizard, Head of Political and Social Risk Analysis at Coface. "Businesses will continue to bring things closer to home and shield their operations from the threat of increased tariffs on Chinese imports," he says.

Middeldorp also argues the tide has already turned. The US already imports less from China and MNCs have changed supply chains to bases in countries like Vietnam, he says. Now it remains to be seen if emerging US trade partners in SouthEast Asia that have benefitted from shifts in manufacturing from China become the next target. And if global trade will withstand the latest shock or if stagnation sets in after a long period of globalisation.

One area shifting trade flows will manifest is in energy, continues Middeldorp. China and the EU will increasingly focus on building out renewables and reducing their dependence on fossil fuels. Europe's focus on renewable energy and its own defence will also add fuel to inflation and structurally higher interest rates. "It all needs money, and it needs to be borrowed," he said.

Trump's tenure gives the US fossil fuel industry another boost. The new president has pledged to approve new liquefied natural gas terminals, lift Biden's freeze on Alaskan Arctic drilling, cut regulations on greenhouse gas emissions and end incentives and targets aimed at encouraging the rollout of electric vehicles and renewables. Expect consequences for sectors like offshore wind which rely on federal approvals and that Biden encouraged with ambitious targets.

Still, fossil fuels also thrived under Biden. Under his tenure – and building on a momentum from Trump before – the US reached record levels of crude and national gas production to become a net exporter of oil and gas and create the highest trade surplus in terms of energy ever.

Bitcoin is another beneficiary of a Trump presidency. He has pledged to make the US "the bitcoin superpower of the world," promising to end the industry's "persecution" and introduce more crypto friendly legislation which could see him waive restrictions and potentially block the US Federal Reserve from launching a central bank digital currency. He has also pledged to add bitcoin to the Fed's balance sheet.

If Republicans take control of the US Senate and the House of Representatives (uncertain at the time of writing) it hands Trump enough legislative power to create more business certainty. A divided Congress would have made it more challenging for businesses to try and plan and the likelihood of more executive orders that mean policy can be changed in an instant and companies must navigate regulatory whiplash. Still, corporates have grown used to executive orders. Biden, Trump and Obama relied on executive orders to get things done because of the challenges they faced passing legislation through Congress.

Under the Biden administration, the government took a significant role in industrial policy to guide and stoke the economy. Like the Inflation Reduction Act, US$500bn in new spending and tax breaks to boost clean energy amongst other sectors; the CHIPS and Science Act, designed to strengthen manufacturing, supply chains, and national security, and the Bipartisan Infrastructure Deal that has seen huge investment infrastructure and competitiveness.

It remains to be seen the extent to which Trump will carry through his promises to rip up these initiatives. Policy changes will have implications for manufacturing jobs in the US. Moreover, Coface's Nizard notes that much of the electorate and business community favour the state support. "The business community is in favour of these incentives which align with the objectives of manufacturing in the US," he says.

If Republicans secure a clean sweep of the House and Senate it could smooth the governance and brinkmanship around the debt ceiling that has characterised recent years with disagreements threats of government shutdowns. One of Trump's first tasks after his inauguration in January will be to agree a deal on the budget and get the ceiling lifted or suspended further.

Analysts believe the deficit is likely to remain elevated, but the level of US debt is unlikely to impact America's credit rating further. A year ago, rating agency Fitch downgraded America's sovereign rating to AA+ from AAA on account of the deficit and rising debt burden. Fitch warns the next administration must face challenges that were once long-term but have now loomed closer into view like America's aging population, higher social security and medicare costs and the rising cost of interest on government debt which has overtaken defence spending and medicare.

Trump is expected to choose a new Federal Reserve chair after the term of Jay Powell, the current head of the central bank, runs out in 2026. The new President has been a harsh critic of Powell in the past for failing to cut interest rates as much as he wanted in 2019 and has expressed a desire to have more influence over the Federal Reserve's decisions. It spikes the risk of financial markets reacting to any indication that the Fed's independence is under threat, potentially exacerbated by the large deficit.

Trump's presidency has sparked concerns amongst Asia's trade dependent economies where countries like South

Korea, Japan and Australia may find doing business with China increasingly challenging.

Oxford Economics has said that "non-China Asia" would be a net loser with the region's exports and imports predicted to fall 8% and 3% respectively.

The words of one Asian treasurer provide a degree of comfort, however. Corporations in China and India won't be hugely impacted by who is in the White House, they said. "It is just a new guy with a megaphone. Nothing much changes underneath."

> Businesses will continue to bring things closer to home and shield their operations from the threat of increased tariffs on Chinese imports.
>
> Ruben Nizard, Head of Political and Social Risk Analysis, Coface

Trump's tariffs threaten to torpedo trade

Donald Trump is not unique in his desire to protect US businesses from foreign competition, but his fondness for tariffs poses a threat to all enterprises with US connections.

As the dust settles on the US election, American-owned businesses with operations in Asia and Asia-based firms that sell products and services to the US are left to ponder how much more difficult their trading environment will become over the next few years.

Trump's focus on the trade surpluses of America's trading partners could put some countries in a more vulnerable position of being scrutinised for their large surplus positions against the US – including China, Vietnam and Japan.

"As such, US companies with operations in these locations that export back to the US would need to take actions to pre-empt and tackle such risks," says Teck Kin Suan, Head of Research at UOB. "These actions include further developing sales to non-US markets or moving some manufacturing capacity back to the US, although this would come with added costs."

According to Fitch Ratings, the technology hardware, new energy manufacturing and automotive sectors are most at risk. The credit ratings agency believes Chinese manufacturers would continue to expand overseas supply chains to counter trade barriers but notes this would require significant investment.

Fitch's analysis indicates a substantial impact on China's economic growth under a scenario in which the US imposes 60% tariffs on goods imported from China and a 10% tariff on imports from the rest of the world.

Meanwhile, a potential rollback of US climate policies would dampen demand for electric vehicles and renewable energy-related products, affecting commodities including metals, mining and energy resources.

Adam Posen, President of the Peterson Institute of International Economics suggests Trump's tariff increases could actually yield an economic gain for East Asia in the short term. US exports are likely to become increasingly uncompetitive, while offshoring should continue to flow into the region from China, Europe and the US.

"But the longer-term damage his policy tactics will do in undermining the open world economy will quickly overwhelm any benefits," he says. "This will increase uncertainty for businesses and governments in the region."

David Mericle, Chief US Economist at Goldman Sachs expects an average 20% tariff increase on imports from China and new tariffs on automobiles, adding that while a 10-20% across-the-board tariff is possible it is not the bank's base case.

America's trade deficit widened in September and the August deficit level was revised up.

"Lessons from the last trade war suggest that tariffs will likely reduce investment by raising input costs, prompting foreign retaliation against US exports and creating uncertainty about the risk of further escalation," says Mericle.

Studies consistently find Trump's proposed tariffs would have a negative impact on the US economy observes Erica York, Senior Economist and Research Director at the Tax Foundation's Centre for Federal Tax Policy.

"Another major downside is the geopolitical pressure exerted on foreign governments to respond with retaliatory tariffs," she says. "Most private forecasts of the effects of US-imposed tariffs model the impact with retaliation, ranging from tit-for-tat to more targeted responses. Estimates suggest retaliation could more than double the economic losses from US-imposed tariffs."

Of course, it is an ill wind that blows no one any good. For example, it has been reported that industrial park developers across Southeast Asia are recruiting Chinese speakers and identifying land that could be suitable for factory development in expectation of a major shift in supply chains.

One developer told Reuters there had been a surge of enquiries from Chinese customers since it became clear that Trump had a real chance of securing a second term and that relocation to countries such as Thailand and Vietnam was likely to accelerate. ■

A BIRD IN THE (TREASURY) HAND

Sales are the lifeblood of every organisation, but in markets with foreign exchange restrictions additional steps are required to ensure the resulting funds can be accessed.

It is very difficult for treasurers to manage the global cash needs of an organisation when there are significant outflows from manufacturing plants or service centres located in non-restricted jurisdictions and significant inflows into jurisdictions with FX regulations and cross-border restrictions.

This is not just a matter of being unable to access cash for interest expense accounting – a potentially greater issue is being unable to use that cash to offset outflows. Unfortunate treasurers have found themselves dealing with situations where restrictions were not duly accounted for at the time of entering that market or were introduced without sufficient notice to allow implementation and adjustment to the business model.

Patrícia Baptista Nabiço, Group Treasurer at Portuguese data science company Feedzai has extensive experience of repatriating funds, informed by her banking background. She notes that Africa dominates the list of challenging countries in terms of FX regulations, followed by Asian countries such as Pakistan, India, Indonesia, Papua New Guinea, China and Vietnam.

"One of the strategies for addressing these challenges is to open communication channels with tax consultants, external legal counsel and (when possible) regulators as well as banks with significant presence in those markets and have regular calls for market and regulatory updates," she says. "It can also be useful to create guidelines for each market with all applicable regulations and update these regulations regularly across the organisation."

Baptista Nabiço recommends defining standard business models for these markets which take into consideration the challenges created by the regulations and cross-border restrictions and making sure any deviation to the approved business model is justified, documented and has a mitigation plan in place.

"For example, if a customer insists on paying to a legal entity incorporated in Egypt for something that is manufactured in the UK and should be a direct sale from the UK subsidiary and collected there, there should be a plan to ensure all documentation required by FX regulations is available to allow the intercompany payment from Egypt to UK in order to avoid trapped cash in Egypt," she says.

Baptista Nabiço acknowledges internal stakeholders do not always appreciate the complexity of cash repatriation in certain markets.

"Some will try as much as possible to execute commercial orders which are liquidity risk-free and when that is not possible – for reasons like generation of permanent establishment risk, for instance – they will coordinate in advance with treasury teams on the mitigations to be implemented, which are often as simple as making sure all transactions are documented, licensed or registered to enable cross-border transfers later during execution," she says.

However, this is not a standard behaviour and when commercial teams are assessed based on orders booked without considering where the cash is going to land and whether it is going to be trapped, this can encourage quick wins.

In this scenario, negotiations on better terms like splitting out- and in-country scopes or addition of compensation for FX depreciation clauses do not take place and deals are locked in with terms that generate repatriation challenges not immediately visible for other teams to manage and handle later.

"I see behaviours improving and an understanding of repatriation challenges when leaders make it clear to their teams that getting orders and collecting cash are important, but collecting the cash where it can be used for outflows is critical," she adds. "Adding metrics around reduction of restricted cash is instrumental to ensure accurate liquidity and funding plans for a global organisation." ■

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Become a treasury influencer

Alongside the usual set of financial and technical skills, other attributes such as stakeholder management, emotional intelligence and effective communication are becoming increasingly important for treasury professionals everywhere – so how can developing soft skills help treasurers gain influence and progress their careers?

The role of the treasurer within the organisation continues to be something of a moving target. François-Dominique Doll, Deloitte Global Treasury Advisory Southeast Asia Leader, says the role of the treasurer "is undergoing significant transformation", and that traditional finance and business skills alone are no longer enough to meet the demands of a modern treasury function.

Citing the **Deloitte Global Treasury Survey 2022**, he says the survey shows there is an increasing focus on soft skills such as stakeholder, emotional intelligence (EQ) and digital capabilities, "driven in part by the pandemic's impact on remote work, heightened liquidity management and the need for scenario planning."

As treasury teams become more integrated with other business units, Doll observes that treasurers are expected to manage diverse teams, collaborate across departments and align closely with broader business strategies.

"Therefore, treasurers today must not only possess technical expertise but also demonstrate strong leadership, communication and influencing skills to navigate complex stakeholder relationships," he says. "These skills, while not always inherent, can be cultivated through continuous learning, leadership training and practical experience in digital environments."

Building out the treasury skillset

Sander van Tol, Partner at independent consulting firm Zanders, agrees that with the expanding remit of the treasury function – and the increased impact of treasury technology on operational treasury processes – "it is essential for treasurers to continuously develop their own skills and competencies." In particular, given the changing nature of the treasurer's role, "there is more emphasis now on stakeholder management, influencing skills and EQ – rather than pure technical and/or financial skills."

But as van Tol observes, the extent to which the skillset of the traditional treasurer is developing depends on a number of factors. These may include the size and service delivery model of the organisation and the maturity of the treasury function, as well as "the more strategic HR view on the treasury function."

When looking at the required skills and competences within treasury, he points out that unlike more general finance functions such as accounting and control, treasury is regarded as a specialist finance function within a multinational corporation (MNC). Nevertheless, "Treasury is a very diverse function, working with both internal and external stakeholders. So treasurers need to be able to have strategic as well as technical and operational conversations."

What is EQ?

Emotional intelligence – also known as emotional quotient (EQ) – is the ability to recognise, understand and manage one's own emotions, as well as the ability to understand the emotions of others.

The theory of emotional intelligence was proposed in 1990 by psychologists Peter Salovey and John D Mayer. According to psychologist and author Daniel Goleman, emotional intelligence has five key components: self-awareness, self-regulation, motivation, empathy and social skills.

In the context of the workplace, EQ can be an important attribute, both for team players and at a leadership level. People with emotional intelligence will be better placed to build positive relationships, coach teams, resolve conflicts and promote a positive working environment.

They may also have an advantage where career progression is concerned. Travis Bradberry, author of Emotional Intelligence 2.0, **has previously argued** that research shows emotional intelligence to be "the critical factor that sets star performers apart from the rest of the pack." According to Bradberry, only 36% of people are emotionally intelligent – but 90% of top performers have high emotional intelligence.

Raising the profile of treasury

For modern treasury professionals, navigating these conversations effectively is not only crucial to furthering specific treasury goals – it can also help to raise the profile of treasury within the organisation more generally, as well as helping treasurers progress their own careers. In the ACT's **Business of Treasury 2024 survey**, for example, 'leadership and strategic skills' were identified as a barrier to career progression by 45% of respondents.

At a recent Future Treasury and Finance Leaders Forum hosted by Treasury Today in Singapore, attendees discussed different strategies that treasury professionals can employ to communicate effectively with stakeholders. These included anticipating stakeholders' concerns, rehearsing messages ahead of important discussions, and speaking to different stakeholders individually in order to gain buy-in ahead of a group call.

That said, treasury professionals are likely to focus on building different skills at different stages of their careers.

For example, van Tol explains that treasury practitioners in the early stages of their careers tend to focus more on hard skills, such as specific treasury content and knowledge development, as well as on technology-related training. "When they progress through their careers, other competences become more important like project management, negotiation skills, etc," he adds.

Cutting through complexity

A key aspect of stakeholder management is the ability to explain treasury topics to others within the organisation who are not experts in the field. "One of the best qualities a treasury professional can have, in my opinion, is that they can simplify the complex topics we deal with within treasury," observes George Dessing, Executive Vice President, Treasury & Risk at information, software solutions and services provider Wolters Kluwer.

Dessing reflects that at the end of the day, "everyone is a treasurer in their own way, whether it's converting currency for a vacation or by closing a mortgage for the purchase of a house." As such, he says it is crucial for treasury professionals to 'know their audience' when engaging with other parts of the organisation, and to be able to make treasury 'real' for them.

He describes Wolters Kluwer is a company in which people are asked to look beyond their own areas, and to collaborate to find new solutions. "I always tell my team: 'we achieve more by engaging with the organisation than by sitting behind our laptops all day crunching numbers', and I strongly believe that," Dessing adds. "We're stronger together and should always strive to collaborate and share knowledge with the rest of the organisation to support and inspire each other."

Achieving this requires effective soft skills. Dessing explains that treasurers need to communicate clearly, and may need to defend their viewpoints or convince their colleagues about the value of their ideas. "This, in turn, helps reinforce your soft skills and help you learn from any mistakes you might make along the way."

He adds that soft skills are best trained through practice, "so collaborating on even small multi-disciplinary projects is a great way to grow both your knowledge and soft skills as a treasury professional." Where recruitment is concerned, Dessing says he is "always looking for networkers and team players – people who are communicative, stakeholder-sensitive, result-driven and streetwise – and all of this with lots of passion and a smile!"

Stakeholder management in practice

So, what does effective stakeholder management look like in practice? Yvonne Teo, APAC Treasury Director at German chemicals distribution company Brenntag, explains that the treasury team needs to work closely with internal stakeholders including the CFO and controllers. "A lot of the time we need to work closely together, because our remits are somewhat overlapping," she adds. "Of course, treasury also has a specific focus on cash and FX."

When it comes to building relationships with stakeholders, she notes the importance of understanding their goals and concerns, "and finding out how we can meet each other halfway." By doing so, she says both parties will be better placed to support the organisation and optimise its financial health.

According to Teo, effective communication requires frequent touch points and a clear understanding of the goals and benefits of any joint projects. "For a lot of corporates, it's essential not just to focus on revenue, but to think about how we should repatriate dividends regularly and upstream surplus cash back to our parent company, so that the business can continue to grow through continuous investments.

"That's why it's important for treasury to provide advice on clearing certain roadblocks, right from the beginning," she concludes. "We need to be proactive in anticipating problems and solving them, rather than being in a reactive mode and only handling problems when they come to us." ■

Entrepreneurs and 'intra'preneurs

In an interview with Treasury Today last year, Frances Hinden, EVP Treasury and Corporate Finance at Shell, argued that treasury needs more entrepreneurs: "Recruiting people and persuading them treasury is a great place to work can be difficult," she said. "Many people interested in finance either want to work for their own company or not work in a central function managing cash. But we need the entrepreneur mindset in corporate treasury just as much as we need them in the country as a whole."

François-Dominique Doll, Deloitte Global Treasury Advisory Southeast Asia Leader, notes that as organisations restructure and rethink their team roles, the need for entrepreneurial thinking becomes even more critical. "Treasury departments that adopt this mindset can proactively identify opportunities, innovate within their functions, and contribute to long-term business success," he reflects. "By fostering a combination of technical, digital and soft skills, along with entrepreneurial agility, the treasury function can transition from a reactive role to a more strategic, value-creating one."

Sander van Tol, Partner at Zanders, says that he likes to refer to treasurers as "Finance and Risk 'intra'preneurs," adding that treasurers should be a proactive partner and trusted advisor to the business. As an internal entrepreneur, he says treasurers should be looking for opportunities to leverage their specific knowledge of liquidity, capital and risk. "Treasury should become more embedded with the business, offering insights to support top line growth, cost reduction, efficiency and improved risk management," he says.

As van Tol explains, this focus on measurable, attributable value-add will lead to the expansion of the treasury financial partner role, "extending beyond 'traditional' banking services into a broader array of financial services (and financial services technologies/partners) that the company uses across their business operations."

Managing risk at Interfood

Vincent Almering
Head of Treasury, M&A and Corporate Development

Interfood Group is a global provider of solutions and dairy ingredients for food and beverage industrial markets. The company was founded in the Netherlands in 1970 and has 14 global offices supporting customers and suppliers in their local markets. Interfood distributes billions of tonnes of dairy products per year equivalent to around 50,000 shipments and €3.6bn in sales. The company employs 306 people worldwide.

Vincent Almering jumped into treasury at the deep end when he joined Dutch dairy commodity group Interfood. His career is testimony to the importance of learning on the job and seizing opportunities when they appear in a fast-paced environment managing liquidity, derivatives and changing bank relationships.

It's fair to say that most corporate treasures have moved up the career ladder via positions in cash management or assistant treasurer. But Vincent Almering landed his first job in treasury as Group Treasurer at Eindhoven-based Interfood where he has led the division for the last five years. In an unusual career path that is testimony to the merits of studying on the side Almering proves that anything is possible with a proactive approach to treasury that places understanding the business at its heart.

His first job after graduating in engineering from Eindhoven's University of Technology was with Dutch multinational Philips in a financial analyst role in the semiconductor division. His decision to go back to university to complete a master's in finance didn't stop his steady progress up the ranks.

Like working in the team running the leveraged buyout of the company's semiconductor business to a consortium of private equity businesses. A role that took him to Austin, Texas where he worked for the spin off entity, NXP Semiconductors.

"It was great to be abroad for a couple of years and work in the States for a private equity owned company," he says.

Two and half years later, Almering moved back to the Netherlands to join ASML (another semiconductor business spun off from Philips) where he worked in the company's supply chain and later the deal structuring team. It was at this point his growing interest in the cash side of the business started to trigger an enthusiasm for treasury. "The accounting and forecasting side of a business doesn't reveal the cash side, and I wanted to know more about cash flows and how debt was financed," he says.

There were no vacancies in ASML's treasury team so when he received a call from a headhunter to join the dairy company Interfood in a finance director role he jumped ship, taking a leap of faith that a role with influence and autonomy at the smaller company would ultimately support his journey to treasury.

Almering was responsible for Interfood's European finance operations, overseeing a team of 12. Although he was instantly comfortable in the accounting role and working across complex areas like the company's derivative exposure, he realised a job in treasury remained out of reach without a treasury qualification. With the support of Interfood's CFO, it wasn't long before he was back at university, studying alongside the day job to gain a qualification in treasury that put him in pole position to step into the role of Group Treasurer when a vacancy opened up.

Studying treasury brought a raft of new skills. Like a first-time grasp of the complexities around cash pooling; how to negotiate bank relationships, IT and tooling in the treasury landscape as well as the legal aspects of the role. "My qualification was much more than a refresh," he says. "I developed a new awareness of the fast-changing treasury landscape."

From the new vantage of treasury, Almering got a fresh appreciation of the fast-moving dairy commodity trading sector where goods are made in developed markets and shipped to consumers in markets like Africa and China. Unlike ASML (a cash rich company with an 85% market share) Interfood is a low tech, low margin, high volume business with debt and a permanent negative cash position. Interfood may not be working in cutting edge semiconductor manufacturing, but Almering quickly understood Group Treasurer promised a thrilling ride into the capital and debt markets.

Getting to grips with change

One of his first changes involved shoring up Interfood's banking relationships in a working capital reboot. Trading, he explains, involves buying and selling, storing and moving products; insuring them, taking positions and selling them forward. Mindful that growing Interfood's trading volume required more cash, he set to work expanding the company's finance facility (from €200m to over €500m) while increasing the number of relationship banks from three to six.

Expanding the banking facility was also an opportunity to negotiate more favourable conditions and ensure Interfood's partner banks understood the company's business model, particularly the role of collateral in supporting the corporate borrowing base. Something he believes is now bringing more banks back into commodity trade finance.

"As a treasurer, you want your banks to ask relevant questions and understand the risk. Interfood is a trading company with a large balance sheet so our banks can lend us money against assets in storage or receivables. Banks need to be aware and understand this mechanism because if you have more collateral to pledge to the banks, you can borrow more."

Interfood's model, he continues, is quite different to a company seeking funds to, say, build a factory. The company requires headroom to deal with sudden and unexpected spikes in volatility because if treasury is unable to provide liquidity to the trading team, the whole machine stops.

Like any commodity, dairy prices can suddenly increase – witness how they doubled in value after Russia invaded Ukraine in February 2022. At that time the cost of financing working capital also doubled, adding weight to the balance sheet and requiring much more cash in the company.

Because Almering had already built in excess liquidity, the company had access to all the cash it needed.

"If I do something, I do it because we need it for the next three years, not because we need it today. If I need it today, it's too late. Banks will always lend, but you will end up paying for it and having to give up other terms. You need to think a couple of steps ahead and plan for the worst case that can happen – margin calls, supply chain disruptions, or even a threefold increase in prices."

Refinancing with new banks and ensuring easy access to liquidity hasn't just supported the company through bouts of dairy price volatility. It has also laid the foundation for growth visible in turnover growing from €1.5bn to €3.5bn – in lockstep with better access to liquidity.

The hunt for new banking partners was complicated by ABN AMRO exiting commodity trade finance in 2021. Interfood had six months to replace a €120m financing facility with the bank (around a third of its total financing facility at that time) and source a new portal for all its cash management. Almering onboarded new banks like ING and Deutsche and used the opportunity to have the treasury operations manager overhaul cash management processes by Interfood joining the Swift network.

Like all treasurers, Almering espouses the benefits of efficiency. Something that has become second nature given Interfood's treasury team is just two people – tiny relative to the company's €3.5bn revenue. That said, he argues the size of the team hasn't stopped treasury being effective, something he argues should always come before efficiency – or automation.

"Do the right thing, and then get quicker," he advises.

Almering links treasury success to a simplified landscape manifest around maintenance, axing facilities that aren't used and introducing essential tools. His decision to dust off Interfood's mothballed TMS which was only used as a tracking tool, is a case in point.

In the past the team used to onboard and offboard credit control colleagues in six bank portals, a process he recalls as "a hell of a job." Rebooting the TMS has enabled treasury to replace time consuming banking portals with instant authorisation.

"Getting rid of our local banking portals was essential to doing treasury in a lean way. We have our own Swift number and use it to make host-to-host connections to our banks, so all payments, FX and approvals are centralised in TMS and the user maintenance has been reduced."

Navigating risk

Today, Almering is increasingly focused on Interfood's growing commodity derivatives operation that runs alongside the physical movement of goods. It's not a new risk – the company has been trading derivatives for years – but he says the funding of commodity derivatives is a key topic in his discussions with banking partners.

Volatility in derivatives is always higher than in the physical market and trading derivatives involves a complex landscape of brokers, margin calls, counterparty risk (that may include hedge funds) and a different legal framework. Meanwhile Interfood's derivatives desk has grown to 12 people and has a strong draw on liquidity.

"You can't forget you have these positions on. They act as a hedge for the physical products we trade and you have to maintain them. If the positions are out-of-the-money, you need to deposit margin."

Another risk – and opportunity – further out on the horizon but looming closer into view is sustainability and a world with fewer cows. Almering believes that over time the dairy market in more western nations will gradually shift to alternative products where milk and cheese are made with precision fermented technologies. Part of his role in the corporate development team involves learning about how the company incorporates dairy alternatives into the value chain.

He's already seeing a role for treasury, anticipating how this type of innovation will support the company to reduce its Scope 3 emissions which, attached to KPIs, could also reduce the cost of capital. "Our banks are keen to collaborate and support these types of new products entering the market. As a treasurer, when money flows from A to B you are always somewhere in the chain."

> If I do something, I do it because we need it for the next three years, not because we need it today. If I need it today, it's too late. Banks will always lend, but you will end up paying for it and having to give up other terms.

What he enjoys most

One of the aspects of the job he enjoys most is the ability of treasury to meaningfully fund new business opportunities or save a company money: if a new cash strategy secures a lower cost of funding, it's easy to articulate the business case. These aspects of the job bring treasury into proximity to the C-suite, another element of the role he particularly enjoys, alongside spending time with the wider treasury community of bright lawyers and sharp bankers in an 'always on' culture.

"If you have a good reputation, it's possible to get things done."

It leads him to reflect, again, on the importance of treasurers understanding the business model so they have a firm grasp of how the business makes money – and the types of projects that are best avoided.

Reflecting on how treasury might change in the future, he first observes how little has changed. For example, treasurers still use the same sources of funding, and although he notices innovation in payments and supply chain finance, banking relationships are the same as they've always been.

It's a corner of treasury he believes is ripe for disruption given new sources of finance like institutional investors, insurers or private debt markets.

APIs and algorithms (now, he says, often rebranded as AI) make the life of a treasurer easier, but he says that technology can over promise and under deliver.

It's why integrating any new tech should be done in a careful, detailed process involving reference checks and assurances that the vendor understands the business model.

Perhaps his biggest wish is easier KYC. He suggests a more risk-based, traffic light system rather than today's standardised, routine process, unnecessary if nothing in the relationship has changed or needs updating.

Every year the team spend hours reapproving banking relationships when he would much rather they could work on fun and meaningful projects like commodity derivatives or counterparty risk. ■

In October, Vincent left treasury and took up a role as Interfood's Global Derivatives Director.

SNOWFLAKE'S DAVID STEFFA ON LIQUIDITY, EFFICIENCY AND INNOVATION IN TREASURY

David Steffa, Director of Treasury at Snowflake, the US cloud-based data platform, oversees every aspect of treasury at the company from capital structure to investment management, foreign currency hedging and cash flow forecasting. He tells Treasury Today how he is driving efficiency and why he values strong analytical skills in financial modeling, data analysis, and risk management in the team.

Snowflake treasury's current key priorities are three-fold. The first is managing liquidity to meet business needs, while mitigating reinvestment risk. This is crucial in light of continued signs of economic moderation and potential Fed rate cuts, which we're addressing by thoughtfully extending the duration of our investments.

Secondly, driving efficiency is important and we're doing this by automating treasury processes. This initiative allows the team to dedicate more time to analysing data and making strategic decisions, rather than spending time on manual model updates. It's also helping reduce manual work in Excel by connecting data from sources like Workday, bringing it into Snowflake, and presenting and visualising the data in Streamlit. By boosting productivity and facilitating more informed decisions, we effectively tackle the frustration of lost productivity hours.

Finally, we're continuously thinking of innovative ways to improve finance processes and leveraging technology that interact with treasury by creating cutting-edge processes, using automation, and integrating with the broader CFO tech stack. This also includes showcasing Snowflake's platform within the finance community, consisting of the sales team and financial services customers (largely banks) to illustrate our capabilities, such as importing bank statements into Snowflake, and add tagging based on their transaction codes.

Integrating new technology in treasury has been part of our strategy in recent years. This has helped us in three core areas, including giving us the opportunity for enhanced decision-making. For example, by leveraging Snowflake's AI Data Cloud, we've gained near real-time visibility into cash flow trends, liquidity needs, and risk exposures. This access has enabled us to better align our financial strategies with the company's broader objectives. One such example is a dashboard that was created for current cash and investments in near real-time to provide more visibility to the C-suite.

Snowflake's platform on top of our wider tech stack has also helped increase efficiency as we've implemented automation tools to streamline routine processes like cash management, forecasting, and reconciliation. This transition from manual to automated processes will reduce errors and operational risk, while also freeing up valuable time for the team to concentrate on strategic initiatives, rather than administrative tasks.

Finally, we are benefitting from strengthened risk management by integrating advanced risk management platforms to manage FX exposure more effectively. These tools will enable us to model various scenarios and implement hedging strategies, ensuring the stability and security of our financial operations against potential market fluctuations. Going forward, we will be looking to leverage Snowflake's AI capabilities, such as Snowflake Cortex, to provide insights instead of generic dashboards.

At Snowflake, we prioritise partnering with top-tier global banks. We've invested efforts in achieving near real-time visibility into our accounts with our banking customers, as this proactive approach allows us to stay ahead of potential risks rather than simply reacting to them. In our treasury we seek candidates with strong analytical skills in financial modeling, data analysis and risk management. Proficiency in treasury management systems, automation tools and fintech innovations is highly valued. While an understanding of global financial markets, liquidity management and compliance is essential, proficiency with technology is becoming increasingly more important. We also look for individuals who have a strategic and adaptive mindset. This means aligning treasury functions with corporate goals and being able adapt to economic and technological changes.

On top of these hard skills, we are also on the hunt for candidates that display soft skills too. Everything from effective communication, collaboration, leadership and project management skills are crucial for working with various departments and driving initiatives like process improvement, automation and technology integration. ■

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Mitigating physical climate risk

As the threat of severe weather-related shocks moves up the risk agenda for corporates, what role should treasury be playing to help navigate through emerging regulatory and supply chain challenges?

The World Economic Forum's Global Risks report is a good barometer for tracking what is top of mind among experts from industry, government, academia and civil society on an annual basis. Before 2011, for example, there weren't any environmental concerns among the top five risks in terms of either likelihood or impact.

However, in 2011 there was a marked shift in the world's perception – four of the top five risks by likelihood were linked to the environment and climate change. In terms of impact, climate catastrophes was viewed as the second-highest impending risk.

In the 2024 edition of the report, five of the top ten global risks ranked by severity over a ten-year timescale were linked to the environment, with the premier risk being extreme weather events.

Traditionally, physical climate-related risks – such as wildfires, floods and droughts – tended to fall under the risk management function's remit, according to Torolf Hamm, Head of Physical Risk at WTW's Climate Practice.

"Disclosure requirements that are emerging in many jurisdictions, such as the EU's Corporate Sustainability Reporting Directive (CSRD), can be linked back to risk management," says Hamm.

However, the advent of reporting regulations has led to treasury potentially playing a bigger role in a corporate's sustainability strategy, according to Gustaf Påhlman, Head of ESG Advisory within SEB's Financial Strategy Unit, which sits with the bank's client relationship managers.

"As ESG regulatory requirements increase, companies are looking to find the best function internally to manage the vast reporting going forward, and treasury has done this type of reporting for many years. Therefore, some treasurers are finding themselves at the centre of reporting on these matters as well," says Påhlman.

"Many are hiring their own treasury resources to be responsible for the sustainability topic – which is a significant change over the past five or so years," he adds.

Joanna Bonnett, Group Treasurer at Straumann Group, which manufactures dental implants and specialises in related technologies, agrees that treasurers have a role to play. "Treasurers need to understand the corporate sustainability message and company targets, as well as ensure that they have the right financing at the right price point for that business," she says.

While the treasurer may not be the specific function looking at physical climate risk – more likely it is the risk management, corporate development, or estate and infrastructure team – treasurers are naturally interested at this juncture. Bonnett – who participates in the UK's Transition Finance Market Review, which aims to ensure that debt products are available in the marketplace for treasurers to access – believes that treasurers need to be able to translate the corporate thinking into a coherent message for the financial markets.

"It is probably time for treasurers to get more involved and understand what's happening in the business, not only about sustainability, but more specifically about climate change and the risks it poses for their company," she adds.

> Treasurers need to understand the corporate sustainability message and company targets, as well as ensure that they have the right financing at the right price point for that business.
>
> Joanna Bonnett, Group Treasurer, Straumann Group

The role of insurance

Many, though not all, treasuries have insurance within their remits, so having a deep understanding of the sector and potential risks that climate change poses, such as stranded assets or an uninsurable business model, is required. Some treasurers are already having challenging conversations around this topic, Bonnett reports.

Insurance relates to the financial impacts associated with insurable risks, such as extreme rainfall and hurricanes. These financial impacts are evolving because of the frequency and severity of climate change events, as well as the impact on the wider supply and value chain, according to Hamm.

For example, in 2021 European water utility companies were struggling with widespread flooding in Germany, the Netherlands and Belgium. While they were managing their own assets well, third-party liabilities emerged when excessive rainfall hit their reservoirs.

In some cases, the utilities had to conduct emergency drawdowns to release the pressure, which then caused flooding elsewhere and impacted assets in the surrounding areas.

"Many companies don't have amplifying effects on their radar," Hamm says. "We recommend that they should start looking beyond their organisational boundaries to understand the wider context how these amplifying effects could evolve."

In addition, double materiality is an emerging challenge in Europe, as under the CSRD organisations will be required to look beyond the impact on their balance sheet to how they are impacting the environment.

"A risk manager looking to build resiliency against a flood risk, for example, may have the option of a flood wall or a nature-based solution, which may be a better way forward [for the environment] even though it is more expensive. But how do they fund this?" asks Hamm.

He reports that some companies are exploring using a captive insurance strategy for mitigating financing risk, for example, in the event that insurance becomes harder to access or too expensive. A captive can be a risk-financing vehicle that builds up surplus over time to help pay for more catastrophic risks, such as floods or droughts.

In the context of physical climate risk, Hamm suggests scenario testing – where companies stress test their physical assets and value chain against a climate scenario – is a good first step to visualise and provide strategic insight into where potential issues could arise.

He also recommends combining parametric solutions, which pay out when policy triggers are met, with traditional insurance, particularly to cover assets beyond company boundaries. Certain key suppliers, for example, might be impacted by physical climate hazards more often than in previous years. "It is possible to create more resiliency through the use of parametric solutions," he adds.

Stranded assets

The new regulatory requirements are forcing all companies to look into whether they have exposures or impacts to climate change and nature. For example, the CSRD comes into force in 2026, while the Corporate Sustainability Due Diligence Directive is being applied to the largest companies in 2027, with a rolling implementation deadline for smaller firms.

Asset management and liability is part of an evolving landscape, when considering the risks and/or opportunities arising from the transition to a sustainable economy. "If you're not transitioning in the next ten years or so, then it's too late. Doing nothing isn't an option anymore," says Hamm. "If a treasurer isn't involved in the changing thought process that everyone is undergoing, then they are missing the boat."

Stranded assets are an important issue, according to Hamm. He advises treasurers to review their portfolios, as the footprint and type of assets may evolve in the coming years due to the transition to a low carbon economy. For example, WTW helps clients look at their real estate assets, especially at the investment stage, to determine whether they are fit for purpose.

"From a transition perspective, the property may already be outdated and require retrofitting. In addition, the market value

> We promote the circular economy because it is one way to tackle environmental challenges and future proof the company in light of physical climate change risks.
>
> Gustaf Påhlman, Head of ESG Advisory, SEB

may drop due to the higher frequency and severity of floods, which is a big topic in the UK," explains Hamm. "Due diligence needs to look at future climate conditions."

In the real estate space, where SEB has seen the most progress in terms of transparency, many companies are now conducting physical climate risk assessments property by property, to understand what capital will be needed to renovate the property so that it doesn't become a stranded asset, according to Påhlman.

Treasury or risk function?

In Bonnett's opinion, climate risk – as in stranded assets – doesn't sit within treasury. "The financing attached to a stranded asset does, but not the actual asset," she says.

However, treasurers need to understand physical climate risk from a lending perspective, she argues. "If, for example, a treasurer at a large agribusiness is not able to finance a specific crop, then what will the company do with the land? Will it need to suddenly shift business models, or is treasury already talking to the banks about transitioning and selling those stranded assets?" she says. "One company's stranded asset may be a lucrative asset for another business. It is important for treasurers to be proactive and forward thinking."

Mustafa Kilic, CEO of consultancy firm Pirimo Risk Management Services, has had experience on both sides of the divide when he was head of regional treasury and group risk and insurance manager at a large European manufacturing company.

In 2007 he led the team building the corporate's first enterprise-level risk function. "While climate risk wasn't at the top of our risk agenda, we did have oversight of it, as well as catastrophic and cyber risk," Kilic says.

"Our primary goal was to ensure operational continuity, chiefly by mitigating the risk of relying on single suppliers for specific components. For example, one Japanese manufacturer produced 100% of our condensers, a critical refrigerator component."

A tsunami hit Japan following an undersea earthquake in March 2011, resulting in the Fukushima nuclear disaster. As a result, the Japanese supplier couldn't provide any components for more than half a year.

"Because we had already diversified our suppliers, we had negotiated prices, conditions and quality approval processes, so all the agreements were in place and we could continue [operating without disruption].

It was estimated that this decision saved the company almost a year's earnings," Kilic says. While not strictly a climate-related shock, he argues that the same methodology can be applied to physical climate risk in supply chains.

He believes that the responsibility for mitigating weather-related risk should sit with the risk manager, due to the role's complex and expanding remit.

"At that time, I was in the treasury and managing our risk before becoming group risk manager. However, now risk is much more complicated than ever before – it's not just a side job," he says.

"Previously, treasury was involved with risk management through insurance policies, but today risk management is much more than an insurance policy."

At the same time, Kilic believes that there must be some people inside treasury focusing on enterprise level risk. He also advocates strong collaboration between the risk function and treasury, finance, commercial, logistics and so on.

The next step

In its advisory service to clients, SEB is trying to flip the discussion from discussing reporting and a company's environmental footprint, for example, to looking at how changes in society, technology, regulation and prerequisites for doing business will impact its financial performance.

"Regulation is picking up on that outside-in impact scenario, as seen in the CSRD's double materiality assessment," says Påhlman.

In addition, the Swedish bank is engaging with its clients on the circular economy topic, which treasurers find more tangible and perhaps easier to discuss compared to biodiversity, for example. This is important for the next iteration of the corporate sustainability strategy.

"If the focus on carbon emissions was effectively ESG 1.0, companies are now moving onto 2.0 or 3.0 and taking a longer-term perspective on biodiversity, water and so on, which are issues created and/or impacted by climate change," says Påhlman.

To this extent, companies need to figure out how to deal with the potential scarcity of the raw material that they are currently dependent on.

"We promote the circular economy because it is one way to tackle environmental challenges and future proof the company in light of physical climate change risks," he says. ■

Accounting for payment challenges

Payment service providers might have identified the key stages on the roadmap to wider use of account-to-account payments, but work needs to be done to increase customer acceptance.

The Capgemini Research Institute's world payments report 2025 refers to an industry set to be reimagined with account-to-account or A2A payments challenging the dominance of traditional payment cards.

More than one-third of the European payment executives surveyed for the report expect A2A payments to significantly offset card transaction growth across Europe by 2027.

According to Mathieu Altwegg, Head of Product at Visa for the UK & Ireland, there are three main issues that need to be addressed in order to maximise customer adoption of A2A payments, the first of which is delivering a consistent user experience.

"We then need to create a level of trust so consumers understand that the solution is safe," he says. "Finally, we need a strong element of consumer protection, which typically articulates itself as a formal resolution process for managing disputes."

Visa recently announced the launch of Visa A2A to address these issues and bring consumer control and protection to account-to-account payments. The service will introduce a formal dispute resolution process and use biometrics to add new levels of security.

Altwegg acknowledges that the payment rails have to be secure if consumers are to adopt them at scale and notes that the payment industry has deployed advanced artificial intelligence fraud detection models to help identify potential fraudsters and scams happening in real-time.

"It is also important to onboard the right players and have appropriate requirements in order for beneficiaries to participate," he says. "The best way to fight fraud is to layer

> It is important to onboard the right players and have appropriate requirements in order for beneficiaries to participate.
>
> Mathieu Altwegg, Head of Product, Visa

different fraud detection solutions, one of which is ensuring that you know who is participating on your network."

Altwegg explains that the first two use cases Visa is looking to support with Visa A2A are bill payment and subscription, which are typically recurring payments.

"Businesses are increasingly adopting subscription-based models to drive consumer engagement and loyalty," he says. "Complementing variable recurring payments with the right user experience puts the customer in control, for example by allowing them to set payment limits or making it easy to cancel mandates."

Utilita Energy is one of the companies that have signed up to Visa A2A, which is expected to go live early next year. By combining Visa's experience in developing and operating payments systems at scale with its technology partner, Procode, the utility company expects to be able to bring new services to its customers more quickly.

"This is about offering our customers more choice on how they pay their bills, in a way that is flexible, secure and provides more control," explains Ian Burgess, Chief Technology Officer. "We are very excited to be working with Visa on an industry-led solution to unlock the full potential of open banking and A2A payments in the UK, in particular variable recurring payments."

Variable recurring payments – and particularly commercial variable recurring payments – are poised to play a crucial role in advancing A2A payments in the UK according to Todd Clyde, CEO of Token.io.

"Key factors influencing their widespread availability are still being determined, with the Payment Systems Regulator expected to publish updated proposals this autumn, but demand from merchants and payment providers is undeniable," he says.

Variable recurring payments are also a viable option for monthly bills and subscriptions. Some of these payments are made by card-on-file (continuous authority) and so would also drive the growth of A2A payments.

"However, recurring payments that are currently paid by direct debit or standing order are already A2A transactions over BACS or Faster Payments and so switching to variable recurring payments would not in itself drive the growth of A2A payments," observes Andrew Ducker, Senior Payments Consultant at Icon Solutions.

International money transfer company OA Pay has been using A2A payment for more than two years explains Chief Technology officer, Graham Allathan.

"This was driven by our goal not only to optimise costs but also provide customers with diverse payment options across multiple corridors using a robust and scalable API-based infrastructure," he says.

The company had to enhance its infrastructure by integrating approximately 50% more API endpoints to enable and support the open banking framework. But Allathan says 40% of his customers now use open banking and that once a customer switches they continue to use it, leading to a gradual rise in the average transaction size.

The Capgemini Research Institute's report states that regulations have played a crucial role in driving innovation and ensuring consumer protection and that as a result, the payments ecosystem is more connected, harmonised, efficient and secure than ever before.

However, it also acknowledges that progress towards open banking is limited by differences in regulatory frameworks and market initiatives with issues including non-standardised APIs, limited control over data use, and a lack of incentives to share data with third parties.

Australia, Brazil, India and Singapore are identified as the countries leading initiatives to make data more accessible and convenient for individuals and companies.

A new report from Juniper Research notes that slow adoption of open banking is especially notable in markets that have not enabled legislation for the open sharing of data and information between financial institutions and open banking players.

A key question for proponents of A2A payments is the extent to which interoperability of real-time payment systems across different countries – and a global standard for A2A payments – are realistic objectives.

"In Europe, we have the infrastructure to build pan-European A2A payment schemes thanks to the open banking framework that is regulated by PSD2, which should be further improved upon by PSD3," says Lena Hackelöer, Founder and CEO Brite Payments. "The framework provides a strong foundation for interoperability across European borders, although achieving this at a global scale is a much more complex challenge."

The widespread adoption of ISO 20022 as the underlying message standards for most, if not all, A2A payment schemes around the world will ease some of the technical burden, but there are bigger obstacles – including political barriers – which mean such interoperability will be challenging agrees Rob Hudson, Head of International Banking and Payments at FIS.

Progress is being made toward regional standardisation, which could serve as the foundation for global A2A interoperability in the future according to Oriol Tintore, Co-Founder and Co-CEO of Belvo.

"For instance, Brazil's Pix system and Europe's SEPA network have laid the groundwork for cross-border payments by standardising A2A payment processes within their regions," he says. "In Latin America, while systems like SPEI in Mexico and Pix have been successful within their respective countries, they operate under different regulatory frameworks and technical standards, making cross-border A2A payments more challenging."

Pratiksha Pathak, Head of Payments services at RedCompass Labs is more optimistic, suggesting that global movement towards real-time payments in the form of initiatives such as FedNow, SEPA Instant, UPI and Faster Payment shows that countries are keen to implement more efficient payment solutions.

"On the technology side, open APIs and cloud-based systems are making it easier to connect different payment systems, allowing real-time, cross-border payments," she says. "Major developments in global standards, such as ISO 20022, are signalling that interoperability is a top priority with all of the G20 pushing for better cross-border payments."

Interoperability is already happening in Southeast Asia where A2A payment schemes are jointly developing cross-border capabilities between PayNow (Singapore), PromptPay (Thailand) and DuitNow (Malaysia), for example, observes Adam Lee, Chief Product Officer at Boku. "It is still early but evidence suggests this is absolutely realistic," he says.

However, Michael Seaman, CEO of Swipesum says that the US population will only adopt A2A when it is convenient for them in their everyday lives – and for that to happen, A2A payments must be available in the software they use for transactions, which will only come after bank adoption.

"Only about 10% of banks have adopted FedNow and I'm guessing it would have to be above 80% for us to experience this payment method in our daily lives," he adds.

Canada is moving toward an open banking framework, while Brazil has launched an open banking initiative with regulatory backing. But concerns around data sharing and misconceptions about open banking being complex or risky have slowed adoption in many markets.

While UK consumers may already be using the account aggregation feature of their mobile banking app or have been credit checked for a loan using open banking to get reference data, Hudson recognises that consumer awareness needs to rise.

"Regulation in the form of PSD2 is helping to create more competition in the market, as is the requirement for Apple to open up the NFC component in its phones for usage by actors other than Apple itself," he says. "This kind of regulatory intervention can aide long-term adoption through competition."

Regulatory compliance remains a challenge, especially in countries with evolving financial systems. "Nonetheless, companies are addressing these challenges by offering compliant, easy-to-use platforms that help businesses navigate local regulations and build consumer trust through secure and transparent A2A payment options," says Tintore.

> The [Payment Services Directive] framework provides a strong foundation for interoperability across European borders, although achieving this at a global scale is a much more complex challenge.
>
> Lena Hackelöer, Founder and CEO, Brite Payments

Lee suggests that support from central banks is a key factor in encouraging wider use of open banking schemes targeting B2C payments as they need to ensure the user experience is simple, the process is demonstrably secure, and the pricing to merchants is persuasive.

"A second factor is the degree to which incumbent payment methods are already entrenched into consumer/merchant habits," he adds. "For instance, if merchants insist on the anonymity of cash or consumers insist on the loyalty rewards of credit cards, even a more convenient alternative will face resistance."

There are third-party tools that have pre-built the infrastructure for A2A, RTP and FedNow payments, significantly cutting down on engineering costs. The problem is that without bank adoption, not all customers can access them.

"I have seen other fintech platforms that offer 'free' A2A payments," warns Seaman. "However, since there isn't bank adoption users have to pay by card – which the fintech has significantly marked up. These fintechs are truly high-rate merchant service providers promising A2A payments that don't work yet."

In the UK, the Competition and Markets Authority has already announced full compliance of the open banking roadmap by the CMA-9 group of banks. Providers of open banking services, also known as third-party providers, must also be authorised or registered with the Financial Conduct Authority to provide payment or account initiation.

"Ongoing work is required for consumer protections for any new type of payment service under the open banking umbrella though," says Ducker. "Open banking already has a disputes mechanism as part of its framework, but each subsequent new payment service will bring potentially new angles to consider."

Financial institutions and fintechs need to educate customers on secure transaction practices, such as verifying the recipient's details before authorising payments and being cautious of unsolicited communications, suggests Pathak. ■

Double-edged sword

From deepfake CFOs to supply chain attacks, the risk of cyberattacks is a more pressing concern than ever for corporate treasurers. At the same time, the role of AI in cybersecurity is becoming increasingly topical, with companies concerned about AI-powered threats – while also exploring the benefits of AI-powered solutions.

For corporate treasury teams, protecting their organisations from cyberattacks is an increasing priority. **The Business of Treasury Report 2024** published by the Association of Corporate Treasurers (ACT) found that "nearly all those asked cited cyber security as a concern", with 80% of respondents saying they are investing in cybersecurity measures, up from 69% two years ago.

George Dessing, Executive Vice President, Treasury & Risk at information services and solutions provider Wolters Kluwer, notes that cyber risk is "one of several key risks we focus on. As a digital global information service provider for professionals, it is top of mind for us and our customers, who rely on us to deliver our platforms and services safely and reliably, while safeguarding their data."

He notes that while the fundamental nature of cyber risk may not have materially changed over the years, "the volume and speed at which it now travels fundamentally affects the frequency and impact of the risk. This requires constant monitoring of developments and updates to risk management strategies to 'stay ahead' of the threat actors."

Current risks

"From a treasury management perspective, the most significant cyber threats facing corporations include ransomware attacks, phishing schemes and insider threats," comments Steve Wiley, Vice President, SaaS Treasury Solutions at FIS.

He notes that these threats have become increasingly sophisticated, making use of advanced tactics such as deepfake technology and AI-driven malware. "The landscape is evolving with an increase in targeted attacks that exploit vulnerabilities in financial systems, aiming to manipulate or steal large sums of money swiftly," says Wiley. "This necessitates continuous vigilance and adaptation of cybersecurity measures to protect sensitive financial data and critical operations."

In the current environment, treasurers need to be aware of a variety of different threats:

- **AI-powered threats**. AI-powered threats are a growing concern for security professionals. For example, a **recent survey by Pluralsight** found that 56% of IT security professionals were concerned about AI-powered threats, such as sophisticated phishing campaigns and self-evolving malware.

  Eddie Toh, Partner, Cyber, Advisory at KPMG in Singapore, observes that AI-powered attacks have lowered the barriers to entry for attackers. "AI-powered attacks automate complex tasks, such as generating convincing phishing emails, or scanning networks for vulnerabilities, making it easier for less skilled attackers to succeed," he points out.
- **Supply chain attacks**. Toh also notes that supply chains and third-party providers "often serve as entry points for these cyber threats, amplifying their impact across multiple organisations." The dangers posed by supply chain attacks were highlighted all too clearly by the 2020 SolarWinds supply chain attack, in which malicious code was planted into the company's software, and subsequently distributed to its customers, with victims including the US Treasury Department, the Pentagon and a university. More recent examples include the March 2024 attack on Discord's Top.gg bot platform, in which developers were infected by malware.
- **Rise of the deepfake**. Another high-profile threat is the use of deepfake technology in cyberattacks. Earlier this year, an employee of British engineering group Arup was **tricked into paying fraudsters HK$200m (£20m)** after scammers posed as senior officers of the company during a video call. Toh explains that deepfakes – in other words, "imagery, video or audio featuring a specific individual that is replaced with another person's face or voice or manipulated to give the impression the individual did or said something they did not" – are becoming increasingly sophisticated with the acceleration of AI. He adds, "Organisations must be vigilant about identifying and removing these files and should participate in educating the broader public on the subject."
- **Quantum computing**. At the same time, Toh says the emerging quantum computing space calls for organisations to upgrade their security systems in the coming years. "In a recent KPMG survey, businesses said they are 'extremely concerned' about quantum computing's potential to break through their data encryption," he explains. "Respondents believe that 'it is only a matter of time' before cybercriminals are using the power of quantum to decrypt and disrupt today's cybersecurity protocols."

Adopting a cybersecurity framework

So how can treasurers protect their organisations from these risks? According to Wiley, treasurers can do so by implementing "comprehensive cybersecurity frameworks" that include regular risk assessments, employee training programmes, and investment in advanced security technologies. "Ensuring they are on the latest versions of their software and partnering with the right treasury technology vendors that hyper-focus on cyber-risk is also key," he says.

Wiley adds that challenges may include staying ahead of rapidly evolving threats, ensuring compliance with regulatory requirements, and fostering a culture of awareness and

preparedness within the organisation. “Furthermore, treasurers must balance the need for security with operational efficiency, often requiring significant resource allocation and ongoing vigilance.”

Promoting a culture of security

Eddie Toh, Partner, Cyber, Advisory, KPMG in Singapore, says it is “essential” that organisations promote a culture of security in corporate treasury. “Part of this includes, for example, raising employee awareness of the importance of cybersecurity and establishing policies and procedures to secure data and systems,” he adds.

When selecting a treasury management system (TMS), Toh argues that treasurers should prioritise systems with advanced security features that integrate seamlessly into the broader security framework. According to Toh, key security requirements include the following:

- **Multi-layered security architectures**. These include firewalls, encryption techniques, two-factor authentication, and regular security updates.
- **Real-time monitoring and analysis**. Being able to monitor and analyse transactions in real time is critical to detecting suspicious activity early.
- **User management and access control**. Maintaining strong access controls and managing user permissions helps minimise the risk of internal threats.
- **Compliance and reporting**. A TMS must facilitate compliance with relevant standards and regulations and have effective reporting capabilities.

How can technology help?

Wiley says that technology can significantly help corporate treasurers in their efforts to mitigate cyber risk. “Advanced analytics and machine learning can detect unusual patterns and potential threats in real-time, enabling swift action,” he says. “Additionally, implementing multi-factor authentication (MFA) and end-to-end encryption can protect sensitive financial data from unauthorised access. However, it is crucial to continually update and refine these technological solutions to address new and emerging threats effectively.”

When it comes to detecting deepfakes and other cyber risks, Toh notes that AI can help to defend against attacks and strengthen cybersecurity. “AI systems are capable of continuously analysing large amounts of transaction data to detect patterns and identify anomalies that indicate potential fraud or cyberattack,” he explains. “Through learning from historical data, AI models are able to distinguish normal from suspicious activity, even if it appears inconspicuous on the surface. As a result, it is possible to react quickly to potential threats, often before damage has occurred.”

Furthermore, by leveraging predictive analytics, AI systems can also anticipate future risks based on trends and patterns in the data collected. “These include predicting fraud attempts, cyberattacks and other security breaches,” says Toh, adding that such predictions will allow treasury teams to take preventative action to minimise risks before they materialise.

In particular, Toh says one of the standout features of AI systems is their ability to learn and adapt. “Given that cyber threats are constantly evolving, having a security system capable of learning from new attack methods and adapting its defences accordingly is critical,” he says. “AI models undergo continuous retraining with new data, which improves their effectiveness over time.”

But as Dessing points out, technology in cyber risk management can be both a blessing and a curse. “On one hand it helps mitigate the risk by identifying malicious software and phishing emails more efficiently,” he observes. “But the rise of AI will alter the arms race between threat actors and defenders. AI will enhance threat actor sophistication and reduce barriers to entry for threat actors.” To keep up with these developments, Dessing recommends increasing internal vigilance and partnering with technology vendors that are committed to staying one step ahead.

Combatting the cyber threat with technology

Neill Campbell, Strategic Advisor in the Cybersecurity practice of Datos Insights, explains the role of technology in mitigating the risk of cyberattacks:

- **CIAM system**. According to Campbell, the “foundational technology” that any treasury should ensure they have right is a strong Customer Identity and Access Management (CIAM) approach. “It is critical to ensure only those who should have access to treasury systems have access with no possibility of privilege escalation,” he explains. “A strong CIAM system can mitigate Account Takeover (ATO), session hijacking, man-in-the-middle (MITM), API abuse, insider threats and many more risks.”
- **Controlling critical data**. Campbell also highlights the importance of ensuring control of critical data with strong access management controls. “Institutions face a proliferation of cloud-based deployments,” he notes. In a recent Datos Insights survey of 60 cyber risk leaders, the top concern was cloud security, with 33% focusing on cloud security as a top investment in 2025.
- **Artificial Intelligence (AI)**. Conversely, while AI is being “highly touted” in the marketplace as a tool for combatting cyberattacks, Campbell argues that the effective use of this technology in a defensive posture is “far more limited” compared to how attackers are harnessing this technology to increase the effectiveness of social engineering attacks. For example, a current trend involves the use of AI to improve spear phishing attempts by adversaries by making messages more plausible. “Along with a strong access management programme, organisations need to focus on education,” he says. ■

Navigating challenging supply chains

What are the key issues impacting supply chains and how can treasury prepare?

Thomas Mehlkopf

Head of Working Capital Management
SAP & Taulia

Companies across industries spanning car manufacturing, semiconductors and pharmaceuticals as well as sectors like fashion are increasingly focused on how they should reconfigure their supply chains in response to geopolitical tension and shipping bottlenecks.

Supply chains are shifting from global to (globally connected but) regional, witnessed in the auto sector bringing suppliers back to Europe. But this raises challenges around economies of scale and higher production costs. We can see the change is underway through shifting flows in supply chain finance in fashion which are moving from Asia to new suppliers based in countries like Poland and Turkey.

As companies shape new regional supply chains, they often strive to have at least two suppliers to ensure diversification, but this also creates pressure on costs. Solutions to this include dynamic discounting which effectively reduces the cost of goods sold.

Companies are also creating larger inventory for strategically important goods. To offset the impact of this balance sheet extension, we are seeing a spike in demand for inventory finance. Every customer we see enquires about inventory finance, seeking to keep their balance sheet clean and ensure they can continue to meet customer demand.

There is also a very high focus on free cash flow which is where Supply Chain Finance programmes combined with Payment Term Harmonisation initiatives can help. Similar to the risk diversification on the supply chain side, we see more and more treasurers diversifying their SCF programmes by working with multiple banks. It provides additional security. Banks regularly re-evaluate their relationships with customers as well as their overall strategy and geographies. This can impact treasurers and their SCF programmes if operated globally by just one bank.

Another trend we see is corporates focus more on data across their supply chain. Procurement, inventory and logistics all need to be able to see the same data, including financial data, in real-time. For example, data on late payments is one indicator if a company may be financially struggling and require liquidity where early payment programmes such as Dynamic Discounting or SCF can help. By connecting sales and procurement data and their forecasts, predictions can be made as to which raw materials might be short on stock in the future and require extra attention.

AI offers the potential to use data and draw the right conclusions to frame working capital strategies.
But companies will only be able to harness the power of AI if they have rich data sets. This is where working capital platforms with millions of suppliers on the network can provide huge value given that large amount of data.

We would like to see more innovation around ESG. There are sustainable finance programmes out there, but we need regulators and financial institutions to align reporting standards to truly scale them.

Gopul Shah

Director, Corporate Treasury and Trade Structured Finance
Golden Agri-Resources

Companies across the board are coming under increasing scrutiny for ESG risk. This is compounded by growing regulations covering areas including deforestation, emissions reduction, energy consumption and climate disclosures. As a seed-to-shelf agribusiness, Golden Agri-Resources (GAR) needs to ensure our supply chain will be ready to comply with emerging trends around ethical, resilient and sustainable supply chains. This applies equally to our own plantations and our suppliers, among them hundreds of thousands of smallholder farmers.

GAR's Social and Environmental Policy (GSEP), established in 2015, has set a benchmark for sustainable, responsible practices across our supply chain and is one way we're addressing these issues to ensure customers can rely on deforestation-free supply.

Wherever commercially feasible, many supply chains are also shifting towards local sourcing and nearshoring to improve resilience and lower their carbon footprint. By using renewable energy, investing in green technology and shortening supply chains, businesses can improve sustainability standards, their carbon footprint and efficiency.

GAR has spent over a decade mapping, analysing and improving its supply chains to ensure that palm oil production is resilient, sustainable and decoupled from regulatory and deforestation risk – all the while meeting customer demands. We have expanded the traceability of our total palm oil supply

chain in Indonesia to achieve 99% Traceability to the Plantation (TTP), and we have 100% traceability to our own estates. We're using this experience to extend traceability into other non-palm commodities such as sugar, soy and coconut.

Palm oil traceability data is available to our customers through the blockchain-powered **GAR Traceability Platform**. This is vital due diligence ahead of upcoming regulations like the European Union Deforestation Regulation and will prepare our supply chain for future developments like the UK Environment Act.

This data doesn't just allow us to demonstrate deforestation-free status. It helps us to understand our operations, suppliers and smallholders so we can support them in areas where improvement is needed to ensure their practices are more responsible, more sustainable and even more productive.

Collaboration across the supply chain, including smallholder education, is key to making this work. That's why we have committed to train 100,000 Indonesian smallholders in sustainable palm oil agriculture by 2035.

Agricultural supply chains have significant potential to support decarbonisation efforts and play a role in the carbon economy. Plantations support a huge amount of organic material that can sequester carbon, as well as provide nature-based solutions and biomass energy sources to replace fossil fuels, ensuring food security while contributing to renewable fuel supplies.

The implementation of carbon-related regulations, carbon taxes, carbon credits and carbon trading are also likely to generate new sources of cash income that can facilitate the repayment of coupons or loans, using verifiable carbon certificates. Carbon linkages also provide investors and lenders with a clearly measurable and verifiable payoff mechanism which plugs the shortcomings of green or sustainable loan obligations.

Mark van Ommen
Partner
Zanders

Alongside well-known issues facing supply chains like the pandemic and war in Ukraine, other more subtle developments are increasing supply chain complexity.

Like the fact corporates must consider ESG metrics in their sourcing and companies have ESG ratings and external validators. Elsewhere, the growth of e-commerce and D2C businesses has put different requirements on sourcing and logistics, and a different way of selling and delivering a service. For example, selling to consumers and smaller buyers puts more emphasis on using card providers and payments service providers (PSPs) rather than banks. These processes need to be integrated into the ESP and TMS, but in many cases these new ways of paying have developed outside treasury which has limited visibility.

Businesses, including treasury and finance teams, are building more robust supply chains. Firstly, by creating diversification of the supply chain, such as for example China+1 policies where they do not solely produce in China, but also in countries such as Vietnam, Indonesia and the Philippines. Friend-shoring is also on the rise. We see companies taking a less cost-focused approach when designing their supply chains and focusing on sourcing that is sustainable from a long-term perspective.

Other strategies prevalent in certain industries include inventory build-up where companies are moving away from Just-in-Time methods. Then there is vertical integration, which can range from light-touch partnership approaches to full acquisition of companies in the supply chain. Supply chain finance also provides affordable credit to suppliers by leveraging the group's strong credit rating, supporting resilience in the supply chain.

We have seen some early initiatives to extend SCF beyond the direct supplier further into the supply chain to support smaller suppliers that struggle to access affordable funding.

Data analytics can play a role supporting supply chains with scenario planning. Using predictive analytics, supply chain risks can be modelled, not unlike in advanced financial risk management. Combined with implementing more flexible sourcing and production processes, this type of forward-looking scenario approach may allow corporates to respond faster and shift their sourcing when required.

In large organisations, the data needed to monitor and manage supply chain risks is often spread across a complex system landscape and not seamlessly integrated. Any data strategy needs to be closely aligned with group finance and IT functions to make sure the required data, not just related to supply chain but also other areas of treasury, is available in standardised, real-time and analysable form.

Supply chain complexities are driving corporates from prioritising low-cost sourcing to focussing more on sustainability and perceived risk. Advantages include simplified logistics, more insight into ESG components of supply chain and reduced impact of geopolitical risk but it may cost more. That said, traditional manufacturing countries such as China have seen the cost of labour increase, reducing the arbitrage opportunity. ■

Next question:

"What are the main issues facing corporate treasurers in India?"

Please send your comments and responses to **qa@treasurytoday.com** by 18th December 2024.

The outlook for interest rates ahead

In the five months from April this year, borrowing costs have declined on the outlook for central bank rate cuts. However, there are several factors that will keep short-term borrowing costs under downward pressure, but will increasingly cause long-term rates to rise.

Steeper yield curves

The Fed has a clear objective:

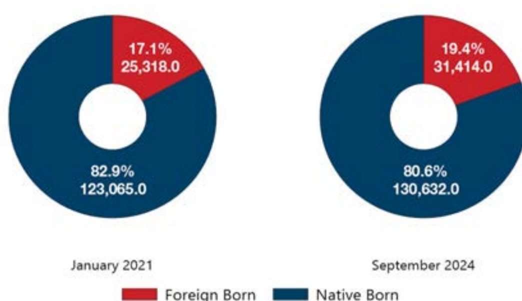
- It wants to prevent a recession as this could lead to another credit crisis.
- It wants to ensure that unemployment stays at levels a little bit above 4%. Lower unemployment entails the risk of higher levels of wage increases and inflation.

This means that, by definition, the central bank wants to stabilise economic growth around potential growth. This is the level at which unemployment remains constant and inflation will not rise. Potential growth is the sum of workforce growth and productivity growth.

The workforce has increased sharply this year due to a wave of immigration. Both Democrats and Republicans want to curb this wave quickly.

Chart 1: Contribution of immigrant workers* to US (potential) growth has increased

**% of US civilian labour force employed persons aged 16+ born outside USA*



Source: LSEG Datastream/ECR Research

Measures have been taken, which have led to a significant decline in immigration and the workforce is already under pressure due to the ageing population. This may lead to longer working weeks and/or an extension of working life into old age. In any case, we assume that, compared to recent decades, workforce growth (or rather, the total number of hours worked) will slow down significantly in the coming years.

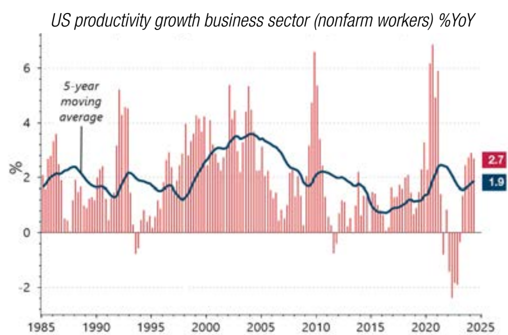
The AI component

Chart one means that potential growth can only be maintained if productivity growth starts to accelerate sharply. Productivity has already increased in recent quarters. This is mostly attributed to modern technology, and to artificial intelligence (AI) in particular. However, it is doubtful whether this conclusion is correct, as the labour market has become progressively tight in recent quarters. In this scenario, productivity will generally increase of its own accord as companies try to squeeze as much production out of existing workers as possible. It remains to be seen whether this phenomenon will continue for long. We also suspect that AI optimism is overblown. A growing number of experts are coming to this conclusion. Also, it is increasingly apparent that vast sums of money are being invested in AI, while, for now, these investments nowhere near generate the returns that justify the level of investment. In addition, China in particular is not idle in this area. Indeed, China is ahead of the US in many AI areas. This means that competition often leads to price declines in areas where AI can be applied quickly. This, in turn, limits the added-value.

In any event, the Fed believes that potential growth was at roughly 2.3% when immigration was still very high, and that it is currently falling back to about 1.8%. We believe this figure to be 2% for now. However, assuming the economy will grow around potential, the additional tax revenue a 2% steady

ecr research

Chart 2: Has a new US productivity boom begun lately?



Source: LSEG Datastream/ECR Research

growth will generate won't be sufficient to cover additional spending on defence, climate change control, additional care for the elderly and far higher interest payments.

In short, the medium-term outlook will be one of fairly low growth with rising public deficits. An additional problem here is the global upward inflationary pressure due to deglobalisation and protectionism. Another factor is labour market tightness caused by the ageing population. For now, we assume that (looming) labour shortages will not be adequately offset by AI induced productivity gains.

If this conclusion is correct, the Fed should ensure that growth ends up below the 2% potential growth rate rather than above it. In light of the tight US labour market, this will in our view mean the Fed will cut rates less than the market is currently discounting. Combined with stubbornly large public deficits and the worrisome long-term outlook for US government finances, this also means that interest rates will remain relatively high, and they could even rise. This, in turn, would be disastrous for public finances in the longer term. Ultimately, this will result in much higher taxes, which will severely dent economic growth, or increasing pressure on the central bank to pursue an inflationary policy. As the latter option is the road of least resistance, we expect that inflation expectations will rise much further in the coming years, as will long-term rates and borrowing costs.

Alarming European prospects

For Europe, the outlook is not better compared to the US:

- In Europe, workforce growth and productivity growth rates are far lower than in the US. Hence, potential growth in Europe is close to 1%.
- The Draghi report, published in September, clearly indicates that regulation in Europe is out of control and that there are far too few large European companies that can sufficiently invest in the development of new technology. This is partly because a real union in terms of banking and sales territory is still a long way away.
- Europe lags behind China and the US in terms of technological development. Furthermore, Europe's supply lines of rare commodities are far less secure and the continent is still politically and militarily incapable of defending itself properly. Efforts are being made to this end, but it will take many years before Europe has its house in order.

All this means that growth in Europe cannot far exceed 1% in the coming years if the ECB is to keep inflation under control (lower interest rates and increases in real disposable income will likely boost growth somewhat in the period ahead). Europe is also grappling with persistent large public deficits and high government debt levels. In a low growth environment, it will be increasingly difficult to bring government finances on a sustainable path, given the large unfunded pension obligations and rising health care costs as a result of aging societies. Consequently, pressure on the ECB will increase as well to pursue an inflationary monetary policy in order to keep the governments funded at affordable levels.

Conclusion

In light of the above, we expect central banks in the US and Europe will be quick to lower rates if economic growth slows further, but will be slow to react in case the economy performs better than expected and inflation (expectations) are under upward pressure. This will result in more upward pressure on long-term rates, while short-term rates will likely remain low or will drop further in the coming quarters to years. ■

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