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January/February 2025

Embracing the new reality

Treasurers are facing plenty of challenges in 2025 – but they are also setting their sights on building technical skills and unlocking the potential of AI.

The Corporate View

Henrik Fries

Group Treasurer

Ingka Group

Local relationships key to international success

Global ambitions demand local consideration

Cash & Liquidity Management

Bitcoin yet to jump the hedge

Funding & Investing

Some capital markets are showing signs of life

Question Answered

Digitisation and cash management take centre stage

Technology

Working capital, data, talent and a clear use case

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New beginnings

Welcome to our first edition of 2025!

We kick off the year with our annual feature exploring the issues you are most focused on in the year ahead and observe budgetary pressures and the uncertain macroeconomic outlook front-of-mind. But treasury teams are also leaning into emerging technologies and building technical skills within their teams to increase efficiency and resilience.

Fittingly, this edition's technology focus is AI, repeatedly touted as transformative when it comes to working capital management, risk mitigation, and the treasury forecasting and analytics that is essential in a challenging world. We find that as the hype around AI grows increasingly frenzied, identifying a practical use case for the technology is a crucial first step.

For all the encouraging noises from the new US president, digital asset managers, crypto treasury service providers and even some corporate treasurers, Bitcoin has yet to win over those who question its value as an inflation hedge.

Will the IPO market open up? Our funding feature predicts most activity from the US and India in contrast to moribund listing activity in Europe, South America and Asia where sleepy stock exchanges report challenges like the abundance of private capital, regulation and uncertainties around the Trump administration crimping corporate appetite to go public.

The growing treasury function at India's leading corporates is also captured in our Question Answered where Tata Communications' Nishith Agarwal and APAR Industries' Sanjay Rohit share their stories on treasury growth and prowess in the region.

Finally, this edition's Corporate View features Henrik Fries, Group Treasurer for Ingka Group. In a timely read, testimony to the steady hand of treasury in tumultuous times, Fries describes his helmsmanship during the company's exit from Russia and turmoil during the pandemic. His many career milestones include overseeing a treasury transformation that incorporated new asset management capability and an in-house bank. He is now integrating AI in the company's celebrated treasury function.

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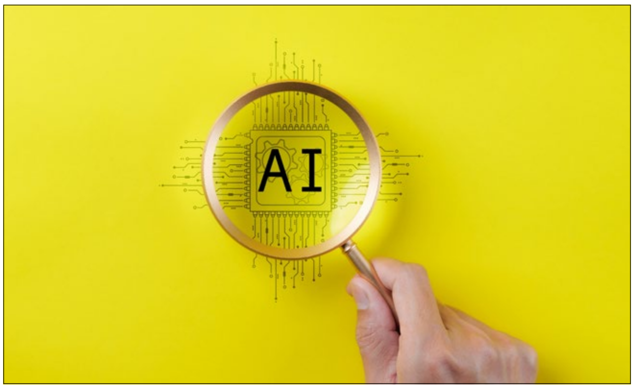
Global IPO activity might be about to pick up led by India and the US. However listing activity elsewhere remains moribund for now where stock exchanges report the abundance of private capital, regulation and uncertainties around the Trump administration crimping corporate appetite to list.



Getting started with AI: focus on working capital management, data and talent

As the hype around AI grows increasingly frenzied, identifying a practical use case for the technology is a crucial first step. Working capital management is a good place to start; treasury teams need to ensure their data is robust enough to feed the algorithms that will shape strategy and strike the right balance between human talent and technology.

Bitcoin's slow progress towards treasury acceptance

The world's largest cryptocurrency may have garnered some influential supporters, but corporate treasurers remain largely immune to its charms.

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Henrik Fries
Group Treasurer

INGKA™

Henrik Fries, Group Treasurer for Ingka Group, was at the helm during the company's exit from Russia and turmoil during the pandemic. He has overseen a transformation project that incorporated new asset management capability and an in-house bank, and is now integrating AI in the company's celebrated treasury function.

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Digitisation dominates as India's treasurers' tool up

Digitisation and automation, and better cash management to maximise the surplus are just some of the strategies shaping treasury at Indian corporates. Sustainability is also increasingly on the agenda say Tata Communications' Nishith Agarwal, HSBC's Manoj Dugar and APAR Industries' Sanjay Rohit.

Embracing the new reality

Treasurers are facing a host of challenges in 2025, from budgetary pressures to an uncertain macroeconomic outlook. But as emerging technologies continue to evolve, treasurers are also setting their sights on building technical skills within their teams and unlocking the potential of AI.

The last 12 months have brought no shortage of challenges for treasury teams. And as 2025 begins, treasurers once again have plenty of headwinds to consider, from the evolving business landscape to geopolitical pressures. At the same time, many treasurers will be focusing their attention on talent development and the adoption of emerging technologies.

Complex backdrop

"While 2024 may have initially promised more predictable inflation and interest rate reductions, the reality is that this stability was only realised in certain economies," observes Bob Stark, Global Head of Enablement at Kyriba. "Treasury learned to adapt to a variety of economic, cash flow and liquidity performance scenarios to globally support the business."

In 2025, Stark says the primary goal for treasury teams remains "optimising liquidity against the complex geopolitical and economic backdrop that continues into 2025." In particular, he notes that currency volatility and unsynchronised monetary policy adjustments "increase the challenge for corporate treasurers to predict liquidity levels required to fund the business."

Baris Kalay, Head of Corporate Sales for GPS EMEA at Bank of America (BofA), highlights the role that the macroeconomic environment is likely to play in shaping treasurers' priorities in the year ahead – particularly the expectation that interest rates are now likely to stay higher for longer.

"When rates are going up, we see very similar actions from central banks all over the world," he comments. "But in the downward cycle, there is more decoupling of central banks' actions, because different countries have different growth trajectories and inflation rates. And when central banks take different actions, there is always more FX volatility – so managing FX risk will be another challenge in the year ahead."

Where technology is concerned, Kalay predicts that digital transformation projects are likely to be on the agenda in the coming year. "Many of our clients are going through S/4HANA integration, so it will be important for treasurers to manage this process and make sure there are no interruptions to their day-to-day activities," he says.

Another topic that is closely related to transformation is the growing focus on ISO 20022 readiness. Kalay says that while there is no particular deadline for corporates, they will still need to look at the changes that are needed to be ready from a technical perspective, and what this will mean from a budgeting point of view.

Turning to talent, Kalay observes that corporates are increasingly focusing on hiring people with technical skills, particularly when they are undertaking digital transformation projects. "Treasury is a space that gets closer to technology every day," he observes. "The question is whether to hire treasury professionals and build their technical skills, or to hire professionals with an IT background and make them skilled in treasury."

Engaging with new technologies

For George Dessing, Executive Vice President, Treasury and Risk at Wolters Kluwer, managing treasury talent is a key topic for 2025. "A treasury team in particular is only as good as its people," he observes. "We can invest in as much treasury technology as we want, but the people using the technology and engaging with the business are in the end the ones creating the value. This makes it important to be aware of what you can offer talent."

Dessing explains that Wolters Kluwer's treasury is small enough for everyone to have their own personal responsibilities, which requires enough depth for them to become experts – "but also large enough for the team members to benefit from a broad vision by collaborating with each other and other disciplines, such as tax, risk and insurance which naturally have a lot of overlap with treasury."

He explains that by fostering a culture of collaboration and diversity, the company is able to support the development of the individual team members, which "allows them to better align with the organisation to create even more value, and to 'win as a team'."

Where technology is concerned, Dessing encourages his team to engage with new technologies. "An example of this is on blockchain technology," he says. "In 2023 we started incorporating blockchain technology into some of the tax products we offer, which required us to open a corporate crypto wallet. This was very exciting for the team and brought a lot of learning."

Dessing also cites the company's experimentation with AI-powered digital assistants within its finance organisation, "whereby we have partnered with Microsoft and are making use of Copilot with enterprise data security. This allows us to let it work with company data without it going into a public large language model.

"I see big opportunities in having AI do the repetitive 'grunt' work, so that the team can allocate more time to the treasury matters that they are passionate about."

Challenges in 2025

The last few years have brought numerous challenges for treasury teams – and 2025 is likely to be no exception. According to Kyriba's Stark, "The looming challenge remains delivering a confident and reliable cash forecast and liquidity plan for the CFO and leadership to build their capital planning upon."

He predicts that in the year ahead, treasurers will face a mixture of high-growth markets alongside regions that underperform due to higher inflation and near-recession-like behaviour. "The result is a need for treasury to mobilise cash globally so they have the agility to adapt to various market conditions and liquidity performance scenarios," he adds.

Sander van Tol, Partner at independent consulting firm Zanders, says that treasurers will be focusing on both internal and external challenges. "The external challenges we expect treasurers to encounter are difficult to predict, and much dependent on the geopolitical events and/or events in financial markets," he says.

"We have already seen in the past that unexpected external events – whether it is a global pandemic, defaulting financial institutions, or loss of liquidity in financial markets – can suddenly be the trigger for a revised focus and attention of the treasury function." As such, he argues that it is important for treasuries to be 'antifragile' – a term used by essayist and mathematical statistician Nassim Nicholas Taleb to describe systems that improve in response to shocks and stressors – and prepared for financial resilience.

Turning to internal challenges, van Tol highlights access to talent and budgetary pressures. "Access to the right talent to drive a technology supported transformation process is very scarce," he says. "You need to be able to combine expertise in treasury management, a deep understanding of how to deploy new technologies, strong communication skills and an ability to drive change."

Where budgetary pressures are concerned, he observes that companies are increasingly looking to lower their operational costs while limiting the budget available for new projects. This is making it more difficult for treasurers to get budgets approved, even though many treasury projects offer the opportunity to achieve a solid return on investment. "In order to overcome this budgetary challenge we advise our clients with more detailed quantitative and qualitative business case for new treasury projects," he adds.

Time for AI-powered digitalisation?

With interest in new technologies such as generative AI continuing to be high, harnessing the opportunities presented by technology is set to be another area of focus for treasurers this year.

Van Tol says he expects that corporates will largely continue to pilot GenAI technology on a smaller scale, "like implementing chatbot functions for internal clients/stakeholders of the treasury function, or data analytics to improve the accuracy of the cash flow forecast or FX exposures." But alongside these small-scale pilots, he predicts that trailblazers will embark in earnest on an AI-powered treasury digitalisation and rationalisation project.

George Dessing, Executive Vice President, Treasury and Risk at global information, software and services company Wolters Kluwer, sees considerable potential for AI and technology in general within treasury, noting that this is a priority for 2025.

"Given the amount of information we digest on a daily basis just the simple use of summarisation is already a big help," he explains. "This is one of the areas where the 'straight-out-of-the-box' functionalities of GenAI have had an immediate benefit. We use it for everything from producing market sentiment analysis using transcripts from corporate earnings calls and central banking authorities, to recapping meeting transcripts to capture key points and assign actions." Nevertheless, he points out that it is far easier to use technology like Copilot if all the relevant data is centralised in a single database, with clearly defined ownership and a focus on ‘clean’ data. “We are leveraging an internal Wolters Kluwer product for this, notably CCH Tagetik, which is a single unified system and is the source of our ‘truth’. Having all the historic and forecasted data in one place in a structured and consistent way helps us run analyses using Copilot much more efficiently and produces much better results.”

For Dessing, the most exciting use case for AI in treasury is cash flow forecasting: “We want to apply the power of AI in our cashflow forecasting based on historic data in our systems.” At the same time, his goals for 2025 include upskilling the team to use these technologies more effectively.

“A great and easy way to get started right away is to switch out your traditional search engine with an AI assistant tool,” he says. “This will inherently make you better at prompting and understanding the capabilities (and limitations) of such a tool. As we say often to each other, ‘let’s strive to make it better.’”

> Those who throw caution to the wind and are always taken by surprise; those who prepare to hedge against the risks coming up – and the opportunists who, while being hedged, are able to encash the opportunities through arbitrage and otherwise.
>
> Amit Baraskar, Vice President & Head, Treasury at Thomas Cook (India)

Embracing the new reality

So where does all this leave treasurers as 2025 begins? Looking back at the last 12 months, BofA’s Kalay argues that the most important lesson learned is that of ensuring treasury has a seat at the table, alongside other key stakeholders across the organisation.

“Most treasuries are going through technical integration, and as part of this, treasury needs to be talking to technology vendors and making sure that the necessary budgets are allocated,” he observes. “Likewise, if companies are going through implementations related to working capital or supply chain finance, treasury needs to have a seat at the table, together with procurement, tax and legal.”

When it comes to thriving in 2025, Stark says the best advice for any treasurer is to focus on top and bottom line impact. “While efficiency of treasury operations is a great objective for treasury, the business benefits when treasury’s impact can help organisational KPIs,” he observes. “Treasury has immense insight, and collaboration with the business is the recipe for success in 2025.”

Van Tol, meanwhile, offers some advice that he describes as somewhat contradictory. “On the one hand, I would advise treasurers to make a treasury technology-driven roadmap to see how they can best deploy new technology, and what are the prerequisites for doing so,” he says. “On the other hand, my advice is to embrace change and prepare for the unexpected. We already know that if we look back in 12 months’ time, we have to conclude that the year has been different than we had expected. So instead of sticking to your fixed routines and long-term technology plans for too long, it is sometimes better to revisit them and see whether there are opportunities in the new reality.”

Treasury goals for 2025

Amit Baraskar, Vice President & Head – Treasury at Thomas Cook (India), outlines the focus areas for the company’s group treasury team going into 2025. These include the comprehensive automation of the treasury function, alongside a focus on domestic payment solutions with complete system integration capabilities. “We will also be going the whole nine yards in evaluating risks and gaining a deeper visibility over the group’s exposures to ever-evolving risks,” he comments.

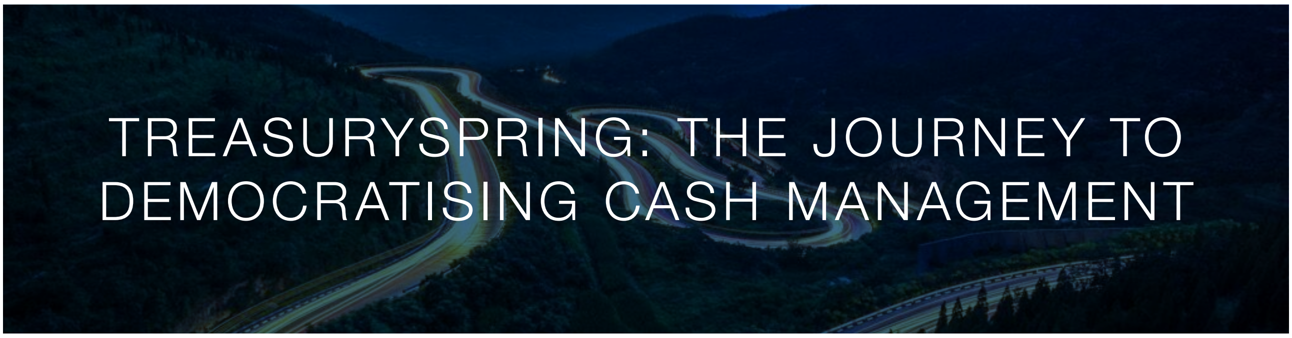
Turning to the falling interest rates environment, Baraskar observes that there are three types of treasuries: “Those who throw caution to the wind and are always taken by surprise; those who prepare to hedge against the risks coming up – and the opportunists who, while being hedged, are able to encash the opportunities through arbitrage and otherwise,” he says.

“Moving from the second type of treasury to the third is on our wish list, and will pose a different set of challenges given the current interest rate regime, since our monies lie in more than 15-20 currencies globally.”

On another note, Baraskar says compliance is a top priority for the company in 2025, “especially since we are a regulated entity, unlike other corporates in India.” In particular, this will include a focus on automating compliance in order to free up the bandwidth consumed by increasing compliance requirements.

And where financing is concerned, Baraskar explains that the company has already achieved ‘net zero finance cost’, meaning that the interest income exceeds the entire finance cost. “We plan to work with a couple of entities within the group to get them to this milestone too,” he adds.

Looking further ahead, the treasury’s medium-term goals – which will proceed only when feasible – include optimising the company’s global cash reservoirs, and “evaluating green pastures and blue oceans for treasury operations as well as business” by looking at opportunities such as special economic zones. Last but not least, Baraskar says the company will explore going debt free, “which is more of an internal decision, and is not looking very difficult.”



TREASURYSPRING: THE JOURNEY TO DEMOCRATISING CASH MANAGEMENT

In an interview with Treasury Today, Kevin Cook, the CEO and Co-Founder of cash investment platform TreasurySpring, explains the origins and offering behind the platform that seeks to help the treasury community manage their cash in the same way that some of the smartest people on the planet manage their cash.

Kevin Cook, CEO and Co-Founder of TreasurySpring dates many of the founding pillars of the cash investment platform he co-founded with Matthew Longhurst and James Skillen in 2016 to the trauma and chaos of the global financial crisis (GFC).

Speaking in an interview with Treasury Today from the company's Mayfair offices in London, Cook recalls the death spiral in fixed income as global investors demanded their money back in the desperate scramble for liquidity in the 2008 crisis. Back then he was working in a hedge fund where strategies had embedded maturity transformation risk – aka borrowing money short term to lend long-term – and the crisis exposed a dramatic and painful mismatch in the fund's assets and liabilities.

The importance of investors always balancing their assets and liabilities, especially given the speed at which liquidity can evaporate in a crisis, is a founding principle at TreasurySpring. As engrained is the importance of segregation which, unlike typical fund vehicles, offers better support for investors wanting to get their money back alongside a wary respect of the dangers of highly concentrated unsecured exposure to the banking sector. "The lessons learned from the GFC and Lehman's collapse have gone on to influence a lot of what TreasurySpring does today," reflects Cook.

Fast forward a few years and the next genesis of TreasurySpring came from Cook's observation that scant cash investment opportunities existed for investors like corporate treasurers who sit outside the capital markets.

In the years after the GFC, treasurers continued to put their cash surplus in low yielding bank deposits or money market funds (MMFs), mostly via unsecured investments. Alternative, return yielding investments like government bonds or accessing the repo market to lend to banks on a secured basis; the opportunity to lend to other government entities to diversify risk or even invest in a different currency and hedge it back, were few and far between.

Spotting an opportunity, Cook, working at an asset manager at the time, began developing the infrastructure to support these kinds of cash investments for investors beyond the usual cohort of hedge funds and investment banks. Persuading risk-averse corporate treasurers to tap into these strategies required putting in place the architecture between the capital markets and treasury to allow institutions, irrespective of their expertise, to pipe into the same breadth and quality of cash investment options.

Roll on 2016, and TreasurySpring sprung into life offering organisations the ability to tap diversified exposure to banks, government bonds and the repo market, avoiding risks like concentrated bank exposure and maturity transformation and the opportunity to access better returns than bank deposits or traditional MMFs.

Since TreasurySpring launched its first fixed term government bond fund in June 2018 the company has issued over £100bn of fixed-term funds to over 500 clients spanning the asset management community as well as a cohort of treasury teams at listed MNCs, SMEs and start-ups.

Today Cook notices a growing sophistication amongst the platform's treasury investor base. More corporates are building out their technology stack and introducing new levels of connectivity with APIs. They are integrating large TMS and connecting with other tech platforms to support reporting and treasury management, he concludes.

IPO? Expect ups and downs

After years in the doldrums, global IPO activity might be about to pick up led by India and the US. However listing activity in Europe, South America and Asia remains moribund for now where stock exchanges report challenges like the abundance of private capital, regulation and uncertainties around the Trump administration crimping corporate appetite.

Recent signs of optimism that life might be returning to the global IPO market include Japan's Tokyo Metro raising JPY348.6bn (US$2.3bn) in the country's largest initial public offering in six years. Elsewhere, Hyundai Motor India became the nation's largest IPO ever when it raised US$3.3bn last year indicative of India leading Asia's exchanges with a number of big-ticket stock listings. Of course, the US continues to draw corporates, but the heady days of the 1990s and 2000s when stock exchanges the world over celebrated blockbuster IPOs of state-owned giants is a distant memory. From London to Hong Kong, São Paulo to Singapore, IPO markets remain worryingly quiet. It remains to be seen if 2025 will see more corporate treasurers getting IPO-ready, prepping their accounting and finance systems to support the prospectus and marketing materials needed to curry investor interest.

Reasons to be positive

India remains one of the brightest spots on the IPO landscape. The Bombay Stock Exchange saw 327 IPOs in 2024, taking the number one position globally in IPO volume with almost twice as many IPOs as the US (183) and more than two-and-a-half times as many as Europe, says George Chan, EY Global IPO Leader, EY Greater China Assurance COO and author of the recent EY Global IPO Trends. This year the picture looks similarly rosy. Bombay Stock Exchange CEO, Sundararaman Ramamurthy, recently said almost 100 companies have filled draft IPO prospectuses which could collectively raise an estimated US$11.6bn. Names include the Indian subsidiary of South Korean consumer electronics group, LG, and Walmart-majority owned Flipkart.

Delivery company Talabat's flagship listing in the Middle East, home to a growing investor presence on the ground, could also mark the beginning of more activity in the UAE which has exchanges in both Dubai and Abu Dhabi.

And the US will remain the leading IPO destination for international listings. Like Klarna, the Swedish buy now, pay later pioneer which recently announced it had filed IPO documents in the US. Last year foreign issuers made up more than half of public listings in the US — a historic high — though they contributed only 18% of the total deal value. Deals in the US from APAC increased significantly, particularly from the Chinese mainland, Hong Kong, Singapore and Australia, "driven by regulatory controls, subdued local market conditions or the pursuit of greater capital access," lists Chan. Meanwhile consumer, TMT and industrials IPOs increasingly favoured US exchanges, attracted by specialised investor interest and more favourable valuations, he states.

Another bright spot could come from public listings of PE- and VC-backed portfolio companies which play a critical role in shaping the IPO landscape. Chan says out of the 20 mega IPOs in 2024, 12 were PE-backed, a significant increase from the two listed last year. There were also 18 unicorn IPOs listed in 2024, half of which were launched by VC firms, up from just three in 2023.

AI companies with substantial capital demands could also offer an exciting pipeline. Chan estimates more than 600 AI and AI-related companies are now public, nearly half debuting in the past four years, many with VC backing. Today approximately 60 AI companies are in IPO registration, and more than 400 others remain in the pipeline. "Among these, around 150 are privately held AI unicorns, underscoring the sector's immense potential," he states.

Positively, Chan finds growing confidence amongst CEO respondents, with more contemplating transactions ahead, including IPOs, divestments or spin-offs. Amongst the three types of transactions, in the Americas, CEO respondents expressed a strong preference for IPOs and divestments or spin-offs as their top financial strategy. CEO respondents in the Asia Pacific and EMEIA regions prioritised joint ventures and strategic alliances, followed by IPOs.

Chan also believes that the transformation of the global IPO market into regional ecosystems, each shaped by unique sector specialisations and growth drivers, could help fuel market activity. The success of each sector is increasingly influenced by the economic conditions of its local market and the strategic priorities of the region. For example, the entertainment content sub-sector, including film, gaming, music and TV, is gradually gaining traction across Asian countries like ASEAN member states, South Korea and India.

While energy IPOs, particularly in mining and metals, have declined, steel IPOs – driven by India's infrastructure demand – are growing steadily, supported by rising needs for metals like steel and zinc. The aerospace and defence sector has also seen consistent growth with IPOs increasing from ten in 2021 to 14 in 2023 and 19 in 2024 driven by the US, the Chinese mainland, Japan and South Korea. "This evolving focus reflects the strategic importance of defence industries and their growing appeal to investors worldwide," says Chan.

In another example that speaks to regional ecosystems, energy could define upcoming listings in the US given the anticipated boom in energy exports under Trump. Witness Venture Global, one of the biggest US liquefied natural gas developers, has filed for an initial public offering in what is expected to be among the biggest floats of the year.

Headwinds

However, despite positive signs, significant barriers to more listings exist none more so than the fact more companies are choosing to stay private. Private markets have grown at double the rate of public markets over the last decade and the biggest market shift isn't from one exchange to another, but from public to private markets. Some of the world's most valuable companies like SpaceX, OpenAI and San Francisco-based Databricks remain private with no plans to IPO and some companies that are listed are actually going private.

"Over the past year [the UK] has seen countless firms de-list and go private because public markets aren't the same force they used to be," says Myles Milston, Co-Founder and CEO of Globacap, a capital markets technology firm that supports investment in private markets. "In the last decade, private markets have grown at almost double the rate of public markets while falling less in the downturns, highlighting their robust nature. Nearly every day a new institutional investor announces they are increasing their allocation to private markets due to better returns." Milston argues that private markets now offer a far more competitive alternative to the traditional IPO route for companies looking to raise capital and access liquidity.

Moreover, founders are often put off listing by the burden of going public like quarterly earnings calls and activist shareholders. And many private companies have shown they can tap liquidity without going public. Like Databricks which recently raised capital to enable employees to cash out of their options. Elsewhere, privately held Stripe the payments processing company, also raised US$6.5bn in 2023, enabling the payments company to remain private for longer.

Of course, macro trends could fan IPO activity. The second Trump administration's promise of deregulation and encouragement of domestic production could bolster US IPO activity beyond energy to drive listings in industrials, financial services, technology, cryptocurrency, health and life sciences. Such economic policies, combined with a robust stock market, may also make US markets more attractive to European companies considering cross-border listings.

However, proposed expansionary fiscal measures, alongside significant government restructuring, could lead to higher inflation, rising treasury yields and increased market volatility. "Under such a scenario, investors may reallocate assets from equities to fixed-income securities. Future monetary policy decisions may introduce uncertainty, raising concerns about market stability and potentially shaping investor risk sentiment," states Chan.

Trade protectionism and retaliatory tariffs could also increase costs for import-dependent companies, squeezing profitability and deterring IPO activity. It could also pressure stock markets in trade-surplus countries, including China, Europe, Canada and other emerging regions. Stricter immigration policies may exacerbate labour shortages and drive up wage costs, placing financial pressure on businesses in labour-intensive industries. Meanwhile, deregulation may create headwinds for clean energy and EVs.

The direction of US-China relations could also prompt high-profile Chinese companies to pursue IPOs in alternative markets, such as Hong Kong or European exchanges, to mitigate geopolitical risks.

Regulation also threatens to choke off activity. Food delivery group Just Eat cited a litany of reasons for withdrawing from the London Stock Exchange in November. "It showed just how much work still needs to be done to simplify rules to help retention and lure more firms in. Management described the administrative burden, complexity and costs associated with regulatory requirements, but also low trading volumes on the London market," said Susannah Streeter, Head of Money and Markets, Hargreaves Lansdown.

Elsewhere MiFiD II regulation, introduced to increase transparency across EU financial markets and to standardise regulatory disclosures for firms, has supressed the volume of research written about quoted small and mid-cap companies. It's impacting their visibility in the market and liquidity, access to capital and future growth, and deterring others from also going public. Other reforms in the UK like pension fund reform has also driven investors into bonds instead of stocks.

And amidst such macroeconomic and regulatory uncertainties, the IPO window can also close quickly.
It means treasury teams must act quickly to ensure they can present a compelling equity story with clear potential for value creation, concludes Chan.

Working for a better world

Henrik Fries
Group Treasurer

The Ingka group comprises IKEA Retail, Ingka Centres and Ingka Investments. The company creates good and affordable home furnishing solutions, striving to make a positive impact on the planet by acting consciously and sustainably. IKEA Retail is the core of the group's business and operates its stores in 32 countries. The business was founded by Ingvar Kamprad.

Henrik Fries, Group Treasurer for Ingka Group, was at the helm during the company's exit from Russia and turmoil during the pandemic. His many career milestones include overseeing a treasury transformation that incorporated new asset management capability and an in-house bank, and he is now integrating AI in the company's celebrated treasury function.

If there was any proof required that treasury is a constant source of surprise even for the most seasoned in the field, witness the last few years in Henrik Fries long career. As Group Treasurer for Ingka Group, made up of flagship IKEA Retail – in 32 countries with millions of customers around the globe – Ingka Investments and Ingka Centres, leaving Russia after the 2022 invasion of Ukraine proved one of the most challenging periods of his career.

Like many large Western firms, IKEA closed its Russian retail operations shortly after the Russian invasion of Ukraine and finding a buyer for its shopping centre portfolio proved challenging. As financial markets and sanctions markedly tightened, it was problematic settling the transaction, including finding an appropriate financial institution to support the payment and managing all the FX risk that comes with a large payment in a foreign currency.

"Exiting the business quickly in Russia was simply not possible," says Henrik Fries in an interview with Treasury Today from the company's treasury headquarters in Dublin. "Divestment of the entire Russian portfolio of MEGA shopping centres took time as it was a sensitive, highly complex and confidential process. This was due to the scale of the portfolio, operational complexity, the regulatory landscape and the importance of MEGA shopping centres to the people and communities." Ingka Group finally completed the sale of its Russian shopping centres in September 2023.

Until Fries played his part in Ingka's departure from Russia, he'd have put navigating the pandemic as the most testing time in his career. Although IKEA has a store in Wuhan and "knows the place," the treasury team didn't realise the scale of the crisis unfolding, and it was the company's banking partners who first sounded the alarm.

In the first eight weeks of the pandemic the company drained a significant amount of its net liquidity, unprecedented for the cash-rich company, primarily backstopped by a cash and carry model.

"There was nothing coming in. However, our financial approach is based on 80 years of earning money before we spend it. We think in generations not financial quarters. Money is saved for rainy days," he says.

Ingka had hardly ever drawn on its short-term credit facilities with its core banks. Treasury engaged with the company's banks and credit was not an issue, but the team also identified alternative options.

Ingka's growth is primarily funded by its own means; it has a large store of excess liquidity which is mostly invested in investment grade bonds. However, accessing funds in the capital market by selling bonds wasn't simple at the initial stage of the pandemic.

Treasury found a solution via establishing repo lines with its core banks whereby it lent bonds to banks which, supported by similar facilities with the ECB, lent to the company. "We weren't forced to sell [bonds] at a discounted price. We were able to use our banks credit facilities and our bond portfolio to tap repo facilities. It was a very educational process."

Constant learning

That appetite to learn has been a constant seam through Fries career and was the reason he went into treasury in the first place. After graduating from Copenhagen Business School, he joined the capital markets team at Danske Bank. Four years later in 1992 he jumped ship to Morgan Stanley's capital markets team, moving to London to serve the bank's Scandinavian clients amongst which was the fast-growing IKEA. "I think IKEA retail sales then was about US$7bn then. It's approximately US$45bn today."

As the company grew so had its excess liquidity, and soon the finance team began scouting for someone to manage its financial risks. It wasn't long before Fries' daily contact with Ingka's finance team from his desk at Morgan Stanley led to a job offer.

He says leaving banking to join a corporate was a surprisingly easy decision. Not only did he feel the pull of his Scandinavian roots draw him to the region's best-known corporate. He also wanted his two young children to benefit from growing up in rural Belgium where he would be based for the next 20 years. "We decided this would be a better work life balance," he said.

Other factors were also at play. He had begun to feel constrained in a bespoke investment banking role. The appeal of joining a growing company with an expanding remit won him over. "I stopped being a specialist in one area and became a generalist," he says.

Over the years Fries has worked in activities related to treasury and corporate finance. He started out in Ingka's internal bank in Belgium before moving into investment and financial risk management, where he was responsible for overseeing the company's FX, interest rate, credit and liquidity exposures. As the company accelerated its expansion, he established a US private placement funding programme.

Additional milestones include making Group Treasurer in 2011 and steering and transforming treasury activities where the lion step has been establishing Ingka's Financial Asset Management and in-house bank (IHB) a Centre of Excellence (CoE) in Dublin, where his family has lived since September 2016.

Career highs

Many of the career moments Fries values most are achievements that have come about over the long term. Like the enduring pride he feels seeing co-workers grow and supporting the growth of Ingka's balance sheet with financial risk management.

He can't hide his pleasure in a recently completed, sweeping consolidation and transformation of the Irish operations which operate Quantum and Trax from FIS, and Aladdin from BlackRock. "It's been a fantastic journey and I feel so proud to have had the trust of Ingka Group Management to carry out this transformation and deliver on our targets."

The technology piece also continues to evolve. The company is in the early stages of integrating a new ERP with SAP. He is also beginning to introduce AI, notably in liquidity forecasting where the team's three data scientists use predictive analytics.

Another focus is Continuing Professional Development (CPD) for co-workers with the objective of building an 'Advanced Treasury' for the group which also includes a broader treasury knowledge regarding the company's climate transformation plan.

To encourage innovation and creativity, each of his team are allotted six days a year as CPD days with the objective to up and reskill and stay relevant for the treasury mission. "So much of our learning is on the job as we run a lean treasury. We must embrace change and giving co-workers the time to learn on a 70/20/10 framework is essential."

Fries values the importance of people and relationships in treasury just as much as the latest IT. It manifests in his deep relationships across the business and outside the finance function that offer valuable insights into where the company is moving next.

> "I am focused on delivering to the IKEA vision of 'creating a better everyday life for the many people'.

For example, he has a 'seat around the table' regarding significant investment decisions including decisions related to direct investments in renewable energy, backstopped by the company's commitment to 100% renewable energy consumption across its value chain. "You need a seat at the table to see where a company is heading. Don't be isolated – it's very important as Group Treasurer to have close cross functional engagement," he says.

Future focus

Current tasks at hand include drawing on his capital markets expertise to decide whether equity or debt financing is the best corporate financing solution to fund expansion. Although equity finance would be simple, repatriation costs in emerging markets could make debt financing easier. On the other hand, he's aware debt financing could get costly if the investment takes a while to earn a return. "Corporate financing in markets where there is regulation is occupying us a lot," he reflects.

Fries' commitment to sustainability is a constant seam to the conversation. After world peace, one of his most cherished wishes is that the world aligns to the Paris Agreement and treasury is actively involved engaging the company's banking relationships on their own net zero commitment. "Sustainable treasury is not just about using funding arrangements for renewable assets, it's about the entire ESG agenda including EDI," he says.

Fries' optimism in the future is knocked by a palpable sense that the world is going into reverse, manifest in geopolitical and climate uncertainty, and the cost-of-living crisis. His response is to navigate unknowns with a strong focus on being authentic and honest to himself and his co-workers, and creating a work environment where psychological safety is key.

In a fast changing and difficult world, where pandemics and wars have become familiar treasury territory, Fries' North Star remains supporting the purpose and expansion of the business he loves.

He concludes with a nod to a corporate strategy which measures performance by more than numbers alone. Ingka Group's four value creation areas focus on better homes and better lives for the company's customers and co-workers; a better planet for all and a better company now and for future generations.

"I am focused on delivering to the IKEA vision of 'creating a better everyday life for the many people,'" he concludes.

WHY ISO 20022 ADOPTION PROMISES OPPORTUNITIES FOR INNOVATION AND GROWTH

The benefits of adopting ISO 20022 far outweigh the initial challenges. The enriched data and streamlined processes will not only enhance operational efficiency but also create new opportunities for innovation and growth. By partnering with a reliable bank connectivity provider, corporates can ensure a smoother transition and capitalise on the full potential of this new standard argues Fides' Mark O'Toole.

The transition to ISO 20022 is a hot topic for corporate treasury and finance professionals. As an open, global standard, ISO 20022 offers enhanced payment data, enabling streamlined treasury processes, risk mitigation, cost reduction, and the potential for worldwide innovation, says Mark O'Toole, Head of Sales & Partnerships – Americas at Fides.

Just back from AFP 2024 in Nashville where he presented a panel on the importance of ISO 20022 for corporates alongside Alessandra Peter, Senior Treasury Manager at Autoneum Management AG and Russell Hoffman, Director of Treasury at Unibail-Rodamco-Westfield, O'Toole flags that whilst some companies are providing the correct formats and are already working with a treasury aggregator or building host-to-host connectivity directly with their bank, a knowledge gap exists.

Yet other treasury teams are scrambling to know what files they need or tags to include in the XML to get ISO-ready.

"It's like chasing a train that's already left the station," he says, describing some of the last-minute preparation he is seeing underway.

Poll questions asked of the 250-person audience confirmed the mixed level of readiness, continues O'Toole. Polled on their preparedness to transition to the new messaging standard, respondents revealed a growing awareness of ISO 20022, but the responses also revealed most organisations are still in the early to middle stages of preparation.

Only 10% said they were very prepared and 12% said they were not aware of ISO 20022 at all.

Asked which benefits of ISO 20022 are most important to their organisation, respondents cited the importance of improved payment processing efficiency highest. Next came enhanced data quality and analytics and better regulatory compliance and reporting.

A question on the key challenges organisations face in adopting ISO 20022 for treasury operations found the biggest challenge lies in the technical work required to prepare for migration. Something O'Toole says highlights the need for proper planning, investment in technology, and access to specialised expertise.

The benefits of ISO 20022 are clear, he continues. For corporates, the move to this new format isn't just about adopting a new standard — it's about unlocking a wealth of opportunities to drive efficiency and transparency. This includes streamlined payment processing, better cash flow transparency, improved analytics and simplified compliance: Regulatory reporting becomes easier with enriched and standardised data, making compliance with local and international regulations easier.

Still, implementing ISO 20022 is not without its challenges. Integration with banks, TMS and ERP vendors and other financial systems can be complex, particularly as each financial institution and provider will have its own support timeline and approach to adoption.

"This is where a bank connectivity provider can make a significant difference," concludes O'Toole.

Connectivity providers have experience in dealing with multiple banks and systems, enabling a smoother and more coordinated transition to ISO 20022. They can also help reduce the costs associated with bespoke integration projects and offer specialised knowledge in XML-based messaging formats.

Getting started with AI: focus on working capital management, data and talent

As the hype around AI grows increasingly frenzied, identifying a practical use case for the technology is a crucial first step. Working capital management is a good place to start; treasury teams need to ensure their data is robust enough to feed the algorithms that will shape strategy and strike the right balance between human talent and technology.

Like many companies around the world, Modigent, the Pheonix, Arizona-based energy infrastructure group is gradually integrating AI into working capital management. The company's treasury department is an early adopter of AI-powered solutions supporting cash flow visibility where Nini Johnston, Vice President of Treasury, has integrated Stampli software to help streamline invoice management in the company's accounts payable processes. Elsewhere, she is testing Kyriba for treasury management and Quadient for receivables automation.

"Cash management and cash forecasting are at the core of what I do today and really, every tool we're evaluating for working capital and treasury management has AI capabilities," enthuses Johnston who joined Modigent two years ago to run treasury on her own. Today she leads a team of 20 people across working capital, risk mitigation, and treasury forecasting and analytics in reflection of the pace of growth at the company. It also speaks to the firm's demand for working capital management across the enterprise to support its rapid expansion.

Johnston believes that one of the most compelling aspects of AI is scenario modelling and analysis, something that normally take days, or even weeks, to carry out. "These tools allow us to process data while we're sleeping and give us the ability to focus on exceptions rather than routine processing. This means we can better quantify issues and delays instead of just guessing at their causes," she says.

Fine-tuning predictions for the future with AI is an aspect of the job she particularly enjoys. "The forecasting aspect really excites me. Getting to see where we're going, making our predictions more accurate, and then analysing why we missed when we do, it's just fun. There's something thrilling about trying to predict the future, even though you know you can't get it exactly right."

Getting the use case right

Modigent's application of AI to support working capital management in a clear use case is an example of how companies are beginning to integrate the technology in a way that goes beyond using it to draft policy documents or embed it into Microsoft applications with copilot. It is also an encouraging case study at a time the hype around the technology and the overwhelming availability of AI tools from service providers has made some treasurers hesitant about its true value. Istvan Bodo, Director of Strategy and Operations at The Hackett Group, the Gen AI strategic consulting and executive advisory firm, also argues working capital management support offers the most compelling use case for AI in treasury to date.

Integrating the technology to predict future customer payments so that treasury can forecast an increase in cash flows directly informs efficiency and credit management processes, for example. Elsewhere, AI's predictive models fed on past data visibly improve credit scoring, flags the probability of payment delays and supports inventory management. He believes routine and repetitive tasks around working capital management will be the first beneficiaries of AI which will increasingly drive new treasury operating systems boosting efficiency, accuracy and data-supported insights.

Identifying a clear use case for AI also helps counter common internal caution and resistance to the technology, continues Bodo. Articulation of the benefits like time saved or insights gained helps bring round employees who question the benefits. Resistance doesn't necessarily stem from anxiety about job losses. It is more rooted in concerns about whether the data is reliable enough to shape important decisions. "It is really a mixture of resistance and caution at the same time," he says.

A clear use case also supports budget allocation and helps ensure treasury has the right talent in place and data quality before pressing the AI button. Treasury shouldn't begin integrating AI until "essential pillars" like robust data, governance, talent and internal infrastructure are safely in situ to successfully extract value from the investment, he advises.

A relevant use case also eliminates the risk of launching a large-scale transformation that can quickly become unwieldy. It focuses treasury on determining the benefit and return on the investment. "The most common question we hear is: What are the use cases that are most applicable to my process and will add most value?"

Getting the data right

It is easy to quickly run into trouble integrating AI if a company doesn't have good customer data, reiterate Treasury Today interviewees. If organisations lack good quality data used to train the AI models, it will impact the quality of the AI predictions and recommendations which could be wrong or unreliable.

A key area of concern is inherited bias in the algorithms, and inaccurate outcomes which arise if the algorithms are trained on poor data, continues Bodo. In an added challenge, complex AI models also lack transparency. This makes it challenging to understand the rationale behind the predictions, also raising resistance regarding their reliability. "Organisations should keep in mind the risks of poor data," he says.

"As an emerging technology, AI hasn't been without its issues, particularly when it comes to biases in financial data. Accurate and consistent data is critical for AI to work effectively, but maintaining this in real-time financial environments is no small feat. In the treasury function, if implemented wrongly, it can lead to flawed predictions and misinformed decisions," adds Laurent Descout, Co-founder and CEO of Neo, the FX corporate risk management and collection and payments platform.

The importance of strong data is central to strategy at Kyriba which has just rolled out a new system to enable easier access to its APIs, the critical technology that connects software applications. The company's first-of-its-kind GenAI-driven platform, App Studio, bundles APIs into a catalogue putting data connection on a shelf where whole finance teams can access them to solve liquidity bottlenecks and offer valuable insights.

The App Studio is an example of how AI is changing treasury, Thomas Gavaghan, VP of Global Presales at Kyriba tells Treasury Today. He also flags that his conversations with treasurers about AI are still typically at a high level. Outside IT, few people understand the intricacies and variability that AI offers. "The reality is that AI is the future, and we need to address it," he says. "The conversations we have around AI today are like APIs seven years ago."

He agrees that one of the most useful tools emerging from AI sits around extrapolating forecasts based on historical data. Kyriba is currently extracting around 60% more data this year compared to last year. Moreover, today's data is core, structural data spanning bank statements and historical financial transactions like FX and working capital invoices. Ensuring the data is timely, searchable and in a centralised location, is not an easy task.

"Kyriba is investing in data modelling that will build the next level of technology. This is the complex part of AI; this is the hard part," he continues. "To be able to take in data in a matter of seconds is not trivial but this infrastructure will give us the ability to grow."

Gavaghan observes that AI is not only being used to improve forecasting. Another area it is also changing is investment strategy. But this is an area many treasurers remain instinctively cautious of AI's presence. Common concerns include algorithms acting outside the investment policy, for example.

"The same problem could just as easily occur with a new employee," he reasons. "People are uncomfortable about this, but we have to start thinking this way because this is where the technology is taking us."

Getting the talent right

Treasury teams seeking to integrate AI also need to ensure they get the talent right. Experts flag the importance of employees with data analysis and visualisation skills, equipped to interpret and turn the data into insights.

The human contribution to the treasury function in an AI world is examined by Citi analysts in the bank's recent paper Citi GPS: Treasury 2030. The authors reflect that although human intervention will remain a core element of treasury processes in the future, humans and machines will be "more closely coupled" as innovation takes hold. Because technology can evolve faster than people, treasury needs to ensure guard rails are in place to ensure the responsible and safe use of those technologies. The authors also argue that people-friendly and hybrid working models will be important in attracting the necessary talent to support the future treasury function.

At Modigent, the shortage of talent working in tech is a key issue. Something Johnston links to the fact many graduates who originally choose finance often end up working in tech. The lack of talent is now fuelling the company's investment in tech to reduce its reliance on people. "Finding seasoned treasury personnel for a business our size is challenging, so we've turned to AI and automation tools to help bridge that gap. Automation and AI represent such an important frontier for practitioners like me," she reflects. "We need technological resources to help us continue functioning effectively since we can't rely on growing our human resources."

Others warn that the replacement of people with technology holds real risks. Sectors at risk include auditors and accounting firms, argues Graham Clark, COO & Co-Founder at Inflo, the digital audit platform, who says that clients value the judgment, expertise and experience of auditors, which AI cannot replicate. "Trust in financial audits comes from human interaction, not algorithms," he says. "Human intelligence remains essential to auditing, as it provides insight, context and judgment that AI cannot match." Achieving the correct balance between human interaction and maturing technologies requires careful thought in the payments industry, reflects Descout.

The benefits of AI in payments are already visible. The technology is improving the analytic capabilities of payment firms, meaning thousands of transactions can be checked in a couple of seconds and because AI has the ability to learn from previous payments, it can better identify cases of potential fraud.

But he argues banks should be aware of the challenges that exist around the technology before committing to further adoption. Many financial institutions rely on legacy systems that were never designed to accommodate AI and incorporating these technologies demands not just resources but also a strategic approach to minimise disruption.

"Look at 2010 when banks spent huge amounts to cope with the first wave of fintech innovation, which didn't exactly work out for them," he concludes. "Given banks are risk-averse institutions, there are also plenty of challenges around AI that need to be thoroughly examined first, such as data protection, before banks commit to further AI adoption in 2025."

Bitcoin's slow progress towards treasury acceptance

For all the encouraging noises from digital asset managers, crypto treasury service providers and even some corporate treasurers, Bitcoin has yet to win over those who question its value as an inflation hedge.

In a paper published in December, BlackRock Investment Institute made a case for including Bitcoin in a multi-asset portfolio, noting that it may provide a more diversified source of return since there is no intrinsic reason why it should be correlated with major risk assets over the long term. But as with so many assessments of the highest-profile cryptocurrency, there was a caveat – Blackrock's assessment of a reasonable range for a Bitcoin exposure was only 1-2%.

Many corporates remain wary, even those in the technology space. For example, only 0.55% of Microsoft shareholders supported a proposal for buying and holding Bitcoin according to the firm's latest investor relations report.

Data from Bitcoin Magazine Pro indicates that MicroStrategy still dominates the list of publicly traded companies with Bitcoin treasury holdings, accounting for just over 2% of total supply. To put that figure in context, the next 15 organisations on the list (including Tesla) account for just 0.57%.

Footwear company Atoms is one of a new breed of company that has diversified its cash and high-yield savings accounts into Bitcoin. According to Co-Founder & Chief Operating Officer, Sidra Qasim, the question companies should be asking is not 'why?' but rather 'why not?'.

"We have seen a period of high inflation which devalues the purchasing power of our cash," she says. "A high-yield savings account has never been able to retain that, so we needed to look for alternatives. There isn't a single product in the market that allows us to keep up with inflationary pressure outside of real estate, which is impractical. Bitcoin is the only option at this point."

Qasim observes that when people think of volatility – especially when it comes to Bitcoin – they think of wild swings and 70% drawdowns during certain years.

"Volatility in this case has been positive to the tune of Bitcoin having a CAGR of 155%," she says. "Each order we have accepted in Bitcoin has increased the profit margins of that order as time goes on while lowering the transaction costs with zero risk of fraud and chargebacks." Given her absolute confidence that the company's Bitcoin holdings are secure, it is hardly surprising that Atoms intends to continue this strategy.

"We have held every sat (sub-unit of Bitcoin) we have earned since 2020 and have added to that position," adds Qasim. "We will continue taking Bitcoin payments and finding opportunities to allocate further resources to ensure that we can grow our treasury. Our team is always on the lookout to get more deeply involved in the space and finding ways to build out a circular economy."

In November, battery materials provider Solidion Technology announced it would allocate a significant portion of its excess cash reserves to Bitcoin.

"Bitcoin offers a unique opportunity to diversify our treasury portfolio by including an asset that is scarce, digital, decentralised, transparent and global," explains Chief Financial Officer, Vlad Prantsevich. "As it continues to gain broader adoption, it provides potential upside as a store of value and a hedge against inflation and fiscal irresponsibility."

He describes Solidion's allocation as a strategic investment in a nascent asset class with long-term potential rather than a bet on short-term performance.

"Cash assets remain essential for liquidity and operational needs, but Bitcoin complements our portfolio as a potential growth asset," says Prantsevich. "Assets with massive long-term potential often experience price swings on their path to mainstream adoption and we view volatility as an opportunity rather than a risk." However, to mitigate its impact the company has kept its allocation to Bitcoin within a defined, limited percentage of its total treasury. It also utilises dollar-cost averaging for acquisitions and technical tools to track buying opportunities while continuously assessing market conditions to align with its risk management framework.

"Security is a top priority for us," adds Prantsevich. "Our Bitcoin holdings are safeguarded using institutional grade storage solutions. We have partnered with trusted custodians with advanced security protocols and we continually review and update our cybersecurity policies to ensure integrity and safety."

According to Soren Azorian, CEO of fintech Redline Blockchain, there is no easy answer to the question of whether Bitcoin has proved to be an affective hedge against inflation.

"While Bitcoin is often referred to as 'digital gold' due to its capped supply, its short history and significant price volatility make it a less proven inflation hedge compared to traditional assets like gold," he says.

Rob Gaskell, Founder and Partner at Appold digital asset advisory and investment company Appold, agrees that the jury is still out on this point.

"As much as its supply is fixed, its real world performance has been inconsistent regarding its correlation to capital markets," he explains. "Bitcoin's short existence, traditionally high price volatility and regulatory uncertainty make it less appealing as an inflationary tool when compared to more traditional hedges."

"That said, its track record is improving, volatility has fallen due to increased institutional participation in 2024 and the regulatory environment is evolving," adds Gaskell. "At this stage, it is not a perfect inflation hedge but could be treated as a good diversifier as part of a balanced treasury portfolio."

Arnoud Star Busmann, CEO at fintech Quantoz Payments is confident that Bitcoin is correlated over the long run with technological progress and is "a hedge against the risk of a money printing-driven debt spiral that many developed countries will need to address sooner or later."

Corporates need to address many issues when diversifying into digital assets, one of which is whether they are doing it to capture potential capital gain as part of a treasury investment portfolio, having taken the view that the assets are appreciating in value. Even Tim Ogilvie, Global Head of Institutional at crypto exchange Kraken acknowledges that there is no one-size-fits-all solution for corporate Bitcoin investment and that organisations must assess their unique circumstances including risk tolerance, local regulation and security needs.

"If your main objective is cash conservation, Bitcoin might not be for you," says Pat White, Co-Founder and CEO of digital asset finance platform Bitwave. "But if your business has high exposure to inflation, such as consumer packaged goods or oil and gas, Bitcoin can be a very effective hedge against other parts of your business suffering due to inflation."

The size of the allocation has to take into account the liquidity of the Bitcoin market suggests Katalin Tischhauser, Head of Investment Research at digital asset banking group Sygnum. "For smaller corporations this is not an issue, but for very large companies and large allocations it should be carefully assessed," she adds.

According to Noah Herman, Chief Revenue Officer at digital assets treasury operations company Fortris, custody is probably the critical issue facing corporates. Bitcoin experts use the phrase 'not your keys, not your coins', which means that without the keys to their Bitcoin wallet, the holder of the cryptocurrency cannot access it.

"Corporates need to carefully evaluate how much third-party risk they are prepared to take on versus the responsibility – but ultimately sovereignty – of self-custody," he says. "Our research shows that they are taking a pragmatic, hybrid approach, holding some funds in exchange accounts, some with third party custodians and some in self-custody solutions."

Treasurers also need to ensure compliance with local regulations and assess the potential impact of regulatory changes on their Bitcoin holdings advises Brett Reeves, Head of Go Network at institutional digital asset infrastructure provider BitGo. "They should evaluate the methods for purchasing Bitcoin – including selecting reputable cryptocurrency exchanges or over-the-counter brokers – and establish processes for monitoring its performance," he says. "Corporates also need to implement accounting systems to track and report Bitcoin holdings accurately and prepare for potential challenges in accounting, such as impairment testing and tax reporting."

The Financial Accounting Standards Board's new guidelines for accounting and disclosure of certain crypto assets, including Bitcoin, came into effect on 15th December, allowing these assets to be valued at fair value rather than their purchase price.

"Corporates have previously been concerned over the lack of clarity over [US] governmental regulation," says Marissa Kim, Head of Asset Management at digital asset platform Abra. "President-elect Trump's statements that he intends to have a pro-crypto and Bitcoin administration and his cabinet nominees and pro-crypto House and Senate candidates elected this cycle seem to indicate that this concern will be addressed soon."

In addition to the inclusion of MicroStrategy in the Nasdaq 100 (largely due to its Bitcoin treasury strategy) and the new accounting rules, the prospect of the US creating a Bitcoin strategic national reserve would likely accelerate corporate buying of Bitcoin.

"We also believe we will be in an elevated inflationary environment for the next few years, which will force companies to seek out inflation hedges," adds Kim.

Tim Renew, Deputy CEO of payment service provider BCB Group assesses the time horizon for holding Bitcoin by looking at its performance over the last decade.

"Bitcoin has an average annual return of over 50% over that timeframe," he observes. "The worst annual return over any four year period is ~23% but if you reduce the holding period to two years your worst return would be an unhelpful -46%. Bitcoin is therefore most suitable for corporate treasuries that have high liquidity and a time horizon of holding Bitcoin of at least four years."

A point that is often overlooked in discussions of investment gains is the utility of Bitcoin. Owning cash on the balance sheet is quite onerous – corporations with high cash balances and international operations are required to keep multiple global checking accounts, all of which operate with different banking hours.

In addition, corporate treasurers are under pressure to earn a yield on their float, which often means parking this cash in various money markets or other yield bearing instruments.

"Owning just Bitcoin on a company's balance sheet can reduce its reliance on third parties and reduce transaction costs and potentially increase yield and payment flexibility," says Jeff Dorman, Chief Investment Officer and Co-Founder of digital asset management firm Arca.

For corporates seeking flexibility and fungibility there are better options than holding cash. If they planned to spend that cash but everything they might spend it on is going up in price due to inflation, they would need to generate a return on that cash just to keep pace. "If they expect everything to go higher, why not just buy back their stock before it too goes higher?" asks Dorman. "Additionally, any company with a huge cash war chest is inefficiently using that capital and is primed for activism from investors building a position and trying to influence the board to make changes, including investing that cash in Bitcoin."

American investor and fund manager, Bill Miller, has described Bitcoin as 'an insurance policy against financial catastrophe'. "In the current environment of escalating fiscal deficits and ever-increasing government debt reaching levels far exceeding the economic output of the country, an insurance policy against potential catastrophic scenarios is well advised," concludes Tischhauser. ■

Digitisation dominates as India's treasurers' tool up

What are the key trends shaping treasury in India?

Nishith Agarwal
Vice President
Treasury, Insurance
& Credit Control
Tata Communications

There are multiple challenges operating a complex centralised treasury with a lean team for the scale of our operations. Alongside operating across multiple time zones, we also face challenges navigating and keeping abreast of the changing regulatory environment in the jurisdictions that we operate.

Much of the recent innovation at Tata has come via automation. It spans the adoption of cross border cash concentration and pooling structures which enable a single view of liquidity and efficient cash utilisation to implementing treasury management software which has enabled the automation of our day-to-day operations so that the team can focus on more strategic aspects of treasury rather than transaction management. For example, we have automated cash forecasting, the recording of banking and loan transactions, and FX derivative management.

Treasury now plays a critical role in driving the company's overall financial strategy and decision-making as a key advisor to the C-suite. Last year we adopted a sustainability linked borrowing framework to align all future long-term debt financing with our environmental commitments. The cost of borrowing in this facility is now tied to specific carbon emission reduction targets and continuous improvement in our sustainability performance. I would like to see a big increase in adoption of sustainability linked borrowings amongst Indian corporates.

We have launched a RFP for a Global Cash Management Solution that will take a fresh look at the way we manage our cash, including integrating new technology in blockchain and cash applications.

For example, we want to establish a single sign-on for multiple banking platforms and payment processing through secure API connectivity and implement a notional cash pool to effectively manage and utilise our cash and banking limits. We are also exploring how to optimise our costs and ease the pain of complex KYC requirements by leveraging virtual bank accounts for various entities, and other technology solutions.

On the strategic front, we are working to ensure the company's holding structures give treasury the optimum operating leverage and are fit for future growth.

Today, the most obvious treasury trend in India is technology adoption. There is a great deal of buzz around modernisation through adoption and implementation of treasury management software. As an increasing number of Indian companies "go global" and harbour global ambitions, this is becoming a high priority for treasurers.

In a trend that is driven by softer regulation and the increasing availability of global capital for Indian issuers, more Indian names are debuting in the US dollar bond market. Borrowers are also tapping funding from Export Credit Agencies which is giving Indian corporates access to competitive and long-term financing.

India's corporates face volatile financial markets and geopolitical uncertainties. Given Tata's ambitious growth plan, my job is to provide certainty and insulate the P&L from financial market volatilities. Uncertainty and volatility are already changing the way our customers contract with us, visible in customers demanding local currency billing and challenging pricing, for example.

Moreover, we find some of the countries we operate in are facing increasing foreign exchange shortages, amplified by the challenge of getting money out of certain jurisdictions. Furthermore, supply chain disruptions linked to geopolitical events threaten to delay the overall delivery revenue realisation cycle. We are partnering with the business and working with our customers to find solutions to work around these risks. It involves taking a hard stand on some decisions, and this is one of the biggest challenges we face.

Treasury at Tata Communications is focused on scenario planning and constantly enhancing risk management frameworks. We are focused on insulating the business from disruptions like cyber threats or any restricted access to our assets given geopolitical scenarios. We have also prioritised working with our insurers. Treasury at Tata Communications will continue to evolve every day in response to macroeconomic shifts, technological advancements and increasing strategic demands. Creating an agile strategy that can foresee these changes and adapt ahead is key to staying relevant. Our treasury function will evolve to ensure that we maintain the role of key strategic advisor and enabler for the business.

Manoj Dugar

Co-Head of Global Payments Solutions, Asia Pacific, HSBC

India is one of the fastest-growing economies in the world and is forecast to reach US$30trn GDP by 2047. While businesses in India are excited about the country's growth prospects, they also ought to be cognisant of the challenges they need to overcome in its pursuit for growth. Indian MNCs are rapidly expanding overseas, both organically and inorganically. The increased treasury complexity makes risk management strategies an area where one needs to be most nimble, while operating within the domain of well thought out policies around currency and interest rates, visibility, liquidity optimisation, counterparty limits and always-on connectivity options.

Aligning the capital structure of a business with its growth trajectory in a "cash-trap" country like India clearly reflects the long-term strategic thinking of its treasury team. Specifically, for MNCs in India, treasurers ought to explore increasing flexibility around parental debt options to avoid a cash trap situation in which some MNCs are grappling with presently. Intercompany cash pools, dynamic discounting and innovating in cash repatriation options are some of the measures that a smart treasurer can explore to maximise cash surplus.

Treasury processes around receivables, payables and reconciliation can have a large bearing on customer experience, which has an outsize impact on the success of the business itself. The rise of real-time payments and the growing scale of Digital Public Infrastructure initiatives such as Aadhar, eKYC, the account aggregation framework and ONDC have created myriad opportunities for corporates to review their business models. It is important for treasury to operate as an integrated service provider and support business functions in driving growth.

Fraud and cyber security threats are significant risks for corporate treasurers. In India, we are increasingly seeing treasuries enforcing clear separation of duties among treasury staff. Robust plans are being put in place by corporate treasury departments to respond to fraud or cybersecurity incidents.

Optimising compliance processes and costs are important but high-impact items for most treasurers. The regulatory environment in India is constantly changing, especially in the areas of cross-border payments, privacy and data-security regulations. Treasurers need to ensure that their setups are fluid enough to take care of this without impacting business.

The importance of getting it right in terms of process and record keeping cannot be overstated given the focus of the regulator on compliance.

There will always be challenges on the path to growth. What we have mentioned above aims to add a perspective to the range of considerations that corporate treasurers in India need to balance. How well they can do it would depend on clarity of thought on organisational priorities, strength of systems, process and, perhaps most important, availability of resources.

Sanjay Rohit

Sr. General Manager – Finance APAR Industries Limited

Until recently, the main role of treasury at a typical Indian corporate was to manage cash and fund management, and ensure the liquidity, profitability as well as the solvency of the business. Now with the growth in global trade and the advancement of technology, treasurers are going beyond these basic objectives to focus more on technological implementation in treasury to ensure seamless processes to meet the requirements of the business. This spans LCs to bank guarentees, foreign exchange management and supply chain finance products like factoring, reverse factoring, supplier's credit and buyer's credit. At APAR we have integrated technology in all these areas in our treasury to meet the growing business requirements.

Further, sustainability and digitalisation are also gaining traction in treasury. More of our customers want to work with an ESG compliant organisation. In time to come, ESG compliant organisations could benefit from trade flows and at APAR we are more and more focussed towards digitalisation of processes and sustainability in our operation.

India and Indian companies including APAR are increasingly exposed to international markets, creating risks to navigate that include currency risk, interest rate risk, credit risk, transit risk, logistic risk and political risk. Geopolitical tension across the globe is mounting, visible in unrest in the Middle East, Russia Ukraine war, Taiwan China tension and political turmoil in Bangladesh. The threat of tariffs is dragging the globe towards a more protectionist economy. This will hurt global trade in the long run and add to inflationary pressure in various economies because they depend on global supplies.

Treasury at APAR is most focussed towards end-to-end digitisation of various processes that includes the treasury function. This will help us to assess real time information in terms of bank finance and the company's operation.

Next question:

"What does 2025 mean for global trade?"

Please send your comments and responses to **qa@treasurytoday.com**

Local relationships key to international success

Advances in digitisation and recognition of the value of addressing specific local issues promptly are encouraging multinational companies to take a closer look at the merits of regional treasury centres.

Recent research suggests that senior treasury and finance experts in Asia in particular are supportive of increased regionalisation. Almost half (49%) of the respondents to HSBC's 'Redefining Treasury in Asia' report favoured increased regionalisation through regional treasury centres supporting group treasury, with a further 7% saying they had no plans to centralise in the near future.

According to Patrick Zhu, Head of Global Banking Corporate Sales, Asia Pacific for global payments solutions, the most important driver of regionalisation in Asia is operational complexity.

"Having an in-region central treasury team allows a global company to manage treasury operations at a more granular level in accordance with local regulatory nuances and respond quickly to regulatory changes," he says.

In addition, treasury teams in Asia are frequently in the vanguard of digital transformation, which often leads to broader change across the global organisation. "Lastly, the tilt towards regionalisation reflects local treasury talents' ambition and increased capability to take up more and bigger responsibilities," adds Zhu.

In its latest annual report, Tata International noted that it had established a global physical cash pooling regional treasury centre in Singapore. This model consolidates temporary surplus bank balances from various tax-friendly geographies – including the US, UK, Hong Kong, UAE and Singapore – across divisions and is multicurrency.

By centralising these funds in Singapore, the company says it ensures optimal utilisation and management of its financial resources, reducing the need to finance debt.

There is also support for a hybrid approach where respect is given to the value of local capability and knowledge and recognition that regionalisation places treasury closer to local markets, which helps them to understand regulations and add value by adopting best practices and ensuring regulatory compliance.

A report published last summer by DBS revealed that more than 40% of treasury and finance leaders from companies based in the US and Europe as well as Asia were relocating or planning to relocate their Asian regional treasury centre, with availability of talent and access to new markets among the most important considerations.

Banking infrastructure and services – as well as local customs and the regulatory environment – can be quite challenging, especially in some of the developing markets. Being close to the market and having close dialogue with the banks in the region is often key to a treasurer's ability to find relevant solutions and generally navigate market specifics.

That is the view of Inga Kudzmaite, Treasury and Tax Director Asia at Carlsberg Group, who says that the establishment of treasury centres is driven by a broader need and a business case such as proximity to business operations to provide support, regional financing opportunities and potential related benefits, and tax advantages.

"Geopolitics plays an important role in considering where the treasury centre is or should be located but based on my experience, establishment of a treasury centre is not defined by a single factor but is a rather complex process where different risks and opportunities are balanced into the optimal outcome for the specific business," she says.

Carlsberg's regional treasury centre in Asia is located in Hong Kong. A single employee overlooks all its markets in the region with local treasury staff in each market running domestic operations.

"The treasury centre has one primary purpose and that is to support business needs locally and create efficiencies as well as control treasury operations and comply with group policies and guidelines," observes Kudzmaite. "It brings a certain coherence between market, region and group."

The Siemens Treasury Americas team is headquartered in New Jersey but operates as a fully regional and virtual team, with members strategically located across the Americas. Most of its approximately 50 employees are based in based in New Jersey but there are additional team members in Buenos Aires, Lima, Mexico City, Bogota and São Paulo.

"The Americas region plays an important role in Siemens' treasury operations, particularly as we are responsible for the US – which accounts for approximately 30% of global revenue," explains Nicola Bates, President and CEO of Siemens Capital.

The regional treasury centre serves as a hub of innovation and operational excellence, maintaining close proximity to the business units it serves.

"This proximity, combined with our team's local market knowledge and cultural diversity, positions us perfectly to address market needs, foster collaboration and pilot initiatives that can scale globally," says Bates.

One example of this is the company's ongoing cash management transformation project, which is simplifying and centralising its treasury operations by consolidating over 60 physical bank accounts into a streamlined virtual account management structure.

Each legal entity operates through dedicated virtual accounts, enabling payment-on-behalf-of and collection-on-behalf-of processes and eliminating the need for manual cash pooling and improving real-time visibility into balances and transactions via open banking APIs.

"We are implementing an in-house AI-backed tool to automate cash application directly into our ERP systems, improving accuracy and achieving automation levels of over 80%," says Bates. "Additionally, we are integrating blockchain deposit accounts to enable 24/7 cross-border payments and global liquidity pooling, creating an 'always-on' treasury infrastructure that ensures real-time settlement even beyond local banking cut-off times."

On completion, Siemens expects the project to reduce internal management efforts for bank accounts by 70% and enable it to halve its bank fees.

The company continuously monitors its treasury operations through analysis of real-time data, performance metrics and regular feedback loops.

"Open banking APIs, a centralised virtual bank account structure and real-time reporting provides ongoing visibility into our cash positions and transaction flows, ensuring we can identify and address inefficiencies promptly," adds Bates. "By regularly assessing our systems and workflows, we uncover opportunities to drive optimisation and scalability."

A key question for any multinational considering establishing a regional treasury centre is the value of being closer to local banks and suppliers.

This can enable companies to streamline processes, rationalise bank accounts and negotiate lower fees suggests co-founder of corporate financial specialist Dukes & King, Lisa Dukes.

"A more obvious benefit is the ability to offer better support for operations across different time zones," she adds. "This real-time service capability can enhance the efficiency of local operations and ensure that treasury functions are aligned with the needs of the business and also feel part of the team."

Other benefits include enhanced liquidity outcomes, more efficient working capital management and lower AP/AR management and execution costs according to research conducted by business banking market research and analysis firm East & Partners.

"Local tax planning and advisory expertise, 'connectedness' with regulatory authorities and deeper knowledge of their industry sector are key attributes," says the firm's Global Head of Markets Analysis, Martin Smith.

In terms of talent, regional treasury centres can attract skilled professionals who are familiar with the local market and regulatory environment, which is crucial for effective treasury operations and can lead to better decision making and strategic planning.

"Regional treasury centre employees are more likely to be aware of the local culture and speak the language, which can result in improved communication with regional stakeholders," says Joanne Koopman, Manager at treasury consultancy Zanders.

The use of regional treasury centres has particular benefits where there are large time zone differences with local teams having the benefit of aligning with the whole of a business day in their region as well as being more aligned to payment cut-offs.

"If head office relied on non-treasury professionals to support local treasury tasks in multiple locations, this could be consolidated into a professional regional treasury function improving accuracy, consistency and compliance," says Colin Evans, Managing Director of Elite Treasury Services. "Regional treasury teams act as an extension to the head office function, deepening local relationships, helping to solve technical issues and improving access to local products, funding and services."

Being closer to local banks and suppliers will enhance relationships agrees Simon Kaptijn, Director, Transaction Services Cash Advisory & Structuring at ING Wholesale Banking.

"The ability to meet face-to-face will build longer lasting, stronger ties that may result in improved buying power and better terms and conditions," he says. "In cases of market expansion, local knowledge will provide benefits when entering new markets."

The increased digitisation of regional banks and advances in banking technology have made it easier for companies to establish regional treasury centres, or at least removed some of the previous barriers to establishing or maintaining such centres in certain markets.

The driver for establishing regional treasury centres is to mobilise cash across time zones, allowing local operations to be supported while global liquidity is optimised. This includes leveraging local, lower cost payment channels and minimising the need to move money across currencies.

That is the view of Bob Stark, Global Head of Enablement at Kyriba, who observes that digitisation of regional banks simplifies the automation of treasury and payment processes, increasing the flexibility of a single treasury centre to support multiple countries within a given region.

"Governments opening trading channels and improving tax incentives for businesses operating in their country can increase the likelihood that treasury considers establishing operations in a region," he says.

Data from Citi's proprietary treasury benchmarking service suggests that most clients prefer the model of a globally centralised treasury with regionally distributed treasury operations observes Stephen Randall, the bank's Global Head of Liquidity Management Services, who says it can be valuable to have treasury staff closer to key business hubs to stay on top of changing business and financial conditions.

"We may see a US-headquartered company putting a regional treasury centre in Switzerland or centralising its Asia banking and liquidity cash pool in Singapore, for example," he says. "We are seeing an increasing number of clients operating like this across borders, enabled by digital platforms."

> "The treasury centre has one primary purpose and that is to support business needs locally and create efficiencies as well as control treasury operations and comply with group policies and guidelines. It brings a certain coherence between market, region and group.
>
> Inga Kudzmaite, Treasury and Tax Director Asia, Carlsberg Group

Regional treasury centres may benefit large corporations with multi-country operations when housed in the right hubs to support local nuances, while acting as a strong link with the centralised treasury function at a group level agrees Priyanka Rath, Global Product Executive, Liquidity and Account Solutions at J.P. Morgan Payments.

"Being closer to local operations can improve cash flow management by allowing for more accurate forecasting and quicker responses to cash needs," she says. "Decentralising treasury operations can also enhance business continuity and resilience by spreading operational risk across multiple locations."

Centralised treasury operations require a high degree of maturity in ERP systems and bank connectivity, along with clear guidelines for managing global bank relationships and a robust corporate governance framework that clearly defines the roles and responsibilities between subsidiaries and HQ finance teams.

They also necessitate a banking partner capable of providing a 'follow-the-sun' liquidity management solution. Eventually, cash centralisation may allow for higher cash returns, while anti-fraud and cybersecurity efforts can be reinforced if managed centrally.

However, some organisations may not be ready to adopt this level of centralisation or may prefer strong regional banks instead of global banks – particularly if their activities are spread across several continents acknowledges Philippe Penichou, Global Head of Sales, Wholesale Payments & Cash Management at Société Générale.

"In such cases, a middle ground solution could involve regionalising treasury operations," he says. "A perfect example for this kind of optimisation is the regional centre that a large North American group with operations in 50 countries decided to implement for seven of its European subsidiaries. Combining cash concentration and virtual accounts, the treasury team was able to rationalise its operations, cutting the number of banks and reducing its working capital financing needs."

Will Europe continue to be laggard?

Europe's travails span war in Ukraine to navigating the impact of the continent's economic and energy dependence on China and Russia, low growth and the rise of nationalism. ECR research argues that solving fragmentation in Europe's capital markets could kick start the efficient allocation of capital and increase competitiveness in European companies. Positively, the ECB can stimulate the economy with a looser monetary policy and European citizens' confidence in the EU has reached its highest level in 17 years.

Since the start of the corona crisis in 2020, incumbent governments have been removed from office in 75% of the elections in Western democracies. In France, Germany, Japan, Canada and South Korea, governments and/or leaders have fallen. These states are all – probably not coincidentally – among the group of countries that have benefited the most from globalisation and the postwar Pax Americana. Each of these nations faces great trials as holes start to appear in the US military, diplomatic and economic umbrella, while voters are becoming uncertain, angry and/or fearful, and political systems are starting to creak.

Europe seems very vulnerable. Besides the fundamental financial and economic factors that account for the European underperformance and the euro's weakness, the political picture also adds a hefty dose of pessimism. The most pressing issues facing Europe are:

The Ukraine war

The war between Ukraine and Russia could take three directions this year:

Scenario 1: a prolonged war

A continuation of the war is still a likely scenario. This also entails continued (and more intense) sanctions against Russia, a persistent risk of disruption of energy supplies and pressure on Europe to keep ramping up defense spending. This scenario will also increase the likelihood of further political polarisation and ongoing economic uncertainty in Europe.

Scenario 2: a peace agreement

The presidency of Donald Trump – who has long been boasting that he will quickly strike a deal – and the gradual shift in opinion in European capitals and in Ukraine that territorial concessions to Russia are necessary after all, mean that a truce or even a peace agreement may be more likely. It may help that the Russian economy is showing signs it is beginning to suffer under the strain of the war. A successful peace agreement could provide the European economy with a minor boost.

Scenario 3: escalation

Further escalation remains an option. Ukraine was given permission to deploy American and British long-range missiles on Russian territory, and Putin responded by deploying a type of missile that had never before in history been deployed on the battlefield and by updating the nuclear weapons doctrine.

In addition, the deployment of North Korean troops on the Russian side is obviously extraordinary, to say the least. Such steps may lead to ever further steps up the escalation ladder. Further escalation could also result from more willingness on the part of Kyiv to make concessions, in the sense that Putin may smell blood. This is the point made by hardliners on the Western side.

Economic dependence on China

The European Union (EU) relies heavily on China for imports of critical commodities and technologies. This dependence makes Europe vulnerable to geopolitical tensions and economic shocks. Calls to reinforce the so-called European strategic autonomy and reduce dependence on external suppliers have therefore grown ever louder. But progress is slow and European dependence on China and other authoritarian countries will remain immense in the coming years.

Transatlantic relations

EU-US relations remain crucial to Europe's economy and to European security. European states have substantially increased their defense budgets in recent years. However, the availability of troops and equipment remains a problematic issue. And the promises and intentions to step up collaboration in the military field have been heard for decades, but a European army is still a long way off, and it very much remains to be seen whether it will ever materialise.

Moreover, America has been wanting to shift its strategic focus from Europe to Asia for several decades. This shift may accelerate and intensify under Trump 2.0. However, it would be very unwise of the US to give Russia more leeway in Europe to be better able to hold its own against China. You cannot be a Russia dove and a China hawk at the same time.

The rise of nationalism and populism

The recent European elections and political developments point to a significant growth of populist and nationalist movements in countries such as Italy, Romania, the Czech Republic, Slovakia, Croatia and Hungary, and even in traditionally stable democracies such as Germany, the Netherlands and Sweden.

These movements are characterised by a strong emphasis on national sovereignty, criticism of EU institutions, rejection of supranational decision-making, resistance to migration and generally a pro-Russian stance. However, the challenges facing Europe – such as the climate crisis, energy security and geopolitical tensions (eg Russia's war on Ukraine) – require more co-operation.

Monetary policy

The European Central Bank (ECB) continues to grapple with the balance between inflation control and propping up economic growth. German consumers and businesses, for example, are gloomy, European industry continues to shrink according to PMI figures, a number of European countries need to tighten fiscally, and Trump could drive inflation higher through a trade war, among other factors, and who will slow European exports.

The outlook for the capital and banking union

If Europe wants to be really competitive, it will have to significantly step up efforts to optimise the common market. A common capital market and a banking union are basically indispensable here. European capital markets are still highly fragmented; they still operate largely along national lines. This fragmentation hinders the efficient allocation of capital and reduces the competitiveness of European companies. However, the outlook is not very encouraging, given Europe's deep divisions on the issue and because policymakers have many other more pressing matters on their minds.

Innovation and digital transformation

The EU is at risk of falling behind technologically compared to the US and China. The best researchers in the field of AI are based mainly in the US and China. European companies also play a minor role in the digital sector. Space is another sector where Europe is lagging behind. A final example concerns electric vehicles. European carmakers, such as Volkswagen, lag behind Chinese competitors in the development and production of electric vehicles.

However, we must not create the impression that Europe is on life support and that its heartbeat could stop at any moment. Seven European countries (including five EU member states) still ranked among the world's ten most innovative countries last year. Yet, Europe struggles to translate this innovation into higher productivity growth and economic growth.

Climate change and energy transition

Adaptation to the impact of climate change is becoming increasingly important for the European (and global) economy. Floods, droughts and heat waves cause significant economic damage. Europe seemed well on track to lead the way in the global energy transition. However, the brakes have occasionally been hit hard at the European level and in many countries, eg due to funding shortfalls and the electoral success of the populist right.

A pitiful people?

Clearly, Europe is facing a tumultuous period bringing together geopolitical tensions, internal economic headwinds and political polarisation as well as the need for sustainable transition, among other factors. The EU has undeniably made significant strides in setting up policies for strategic autonomy, the circular economy and monetary stability. However, the challenges remain immense. And it all seemed so great at the turn of the millennium; as Simon Kuper wrote in the Financial Times:

"Think back to 2000. Britain's economy that year was about the size of India's and China's combined. Russia was an economic basket-case with a new pro-Western president, Vladimir Putin, who flirted with joining Nato. Even Europe's terrorists seemed to be fading into retirement." But now, "The outsiders see Europeans as backward peoples who stopped having children and who possess only a few cute ancient assets worth stripping: our châteaux, universities, handbags and football clubs."

Implications for the economy and markets

The aforementioned political forces will likely have the following implications for the European economy and markets:

- Mounting pressure on the ECB to stimulate the economy with a looser monetary policy.
- Tensions will likely increase further, as the political situation may prompt governments to do less or make fewer concessions to help other EU countries.
- Rising tensions – in the form of higher sovereign spreads – could be enough to give EU countries the political motivation to implement the plans that are already in place, which could greatly improve the outlook for the European economy.
- An example of a positive development is the fact that European citizens' confidence in the EU has reached its highest level in 17 years, which provides Brussels with slightly more legitimacy to implement reforms at the European level. However, it should be noted that only 51% of Europeans tend to trust the EU. That said, over six in ten Euro-citizens are optimistic about the future of the EU and only 17% have a negative view of the EU. What is also hopeful in light of the geopolitical competition with authoritarian regimes is the fact that 71% of Europeans still support economic sanctions against Russia.
- A great deal of pessimism about Europe is priced in, judging by, for example, the performance of European shares against US shares and the euro's exchange rate. A correction to this is quite possible once the French political turmoil has subsided somewhat and once, in all likelihood, Friedrich Merz of the CDU/CSU takes office as chancellor, with the latter showing slightly more flexibility with regard to the infamous Schuldenbremse ('debt brake').

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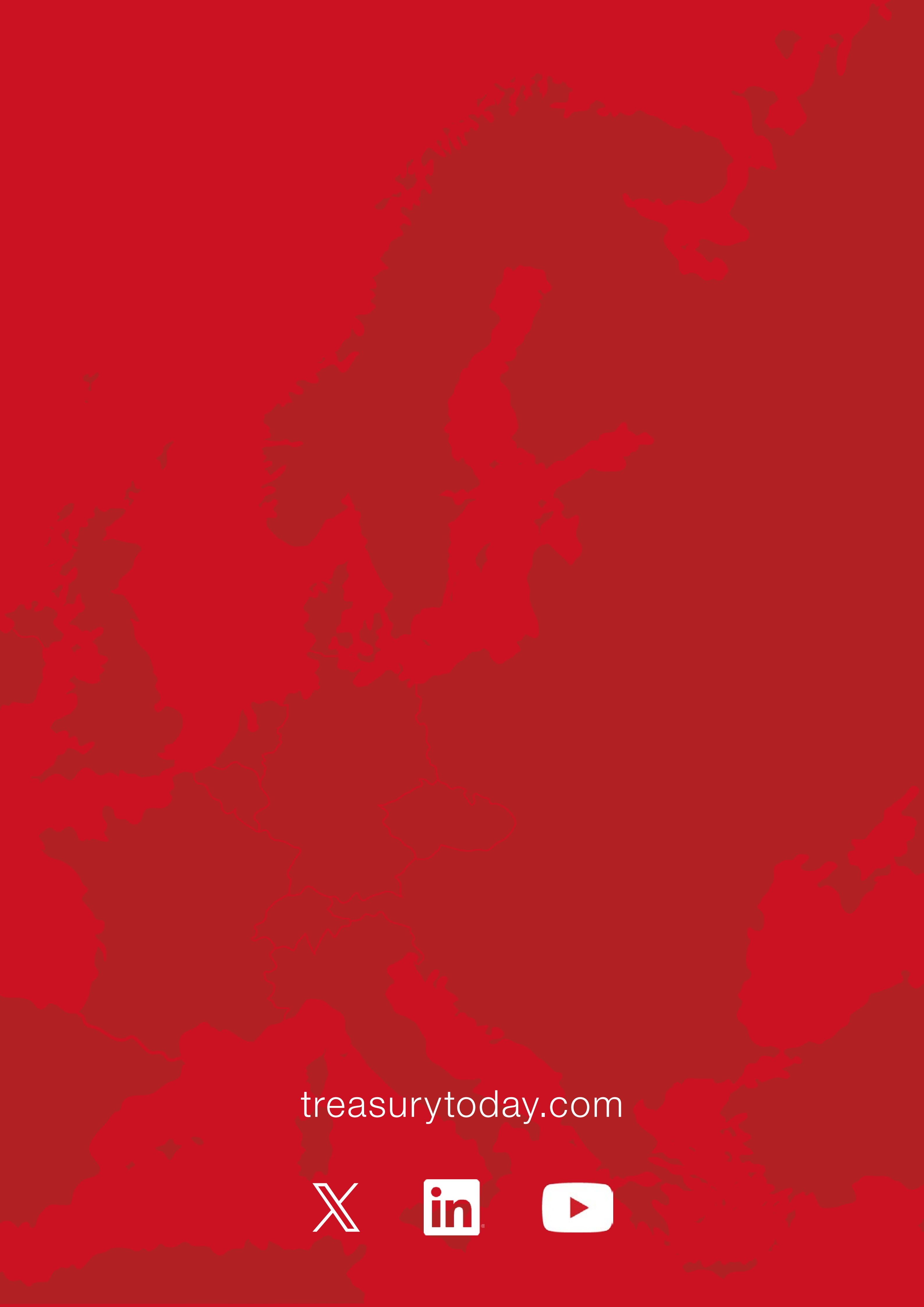

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