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ROME INVESTMENT FORUM 2020 – A SPECIAL REPORT

To describe the event as seventh heaven for folk in finance would be an exaggeration, but speakers at the seventh edition of the Rome Investment Forum organised by FeBAF, in collaboration with AFME (Association for Financial Markets in Europe) and Bloomberg, on 14 and 15 December offered analysis and proposals of great interest. Held online, this year's conference was well timed for catalysing policy-makers and decision-takers in government and the private sector in their responses to the Covid-19 pandemic. Opening the investment forum, Luigi Abete, FeBAF's chairman, underlined that there are no quick fixes to the problems created by the pandemic, and that systems and procedures of support for firms, put in place in response to the immediate crisis, will need to be prolonged beyond the end of the health emergency. Mr Abete put his finger on issues that handicap Italian business ("deficit of efficiency in the public administration ... procrastination in decision-making ... weaknesses in infrastructure") but saw how the pandemic has had beneficial side-effects: of requiring Italians "to step up", and of obliging members of the European Union to recognise the need "to pull together".

Next Generation EU and the Recovery & Resilience Facility

For Mr Abete, it is crucial that Italy grasps the opportunities arising from Next Generation EU resources for tackling environmental challenges and the challenges posed by innovation and the need for social cohesion. Paolo Gentiloni, EU commissioner for the economy, told the conference that agreement on the facility was an "impressive collective decision", but that such a facility should become permanent will depend on results. Noting that Italy has had difficulties in absorbing EU funds in the past, Mr Gentiloni asked if Italy has the tools to make Next Generation EU resources work effectively. While Italy's economy and finance minster, Roberto Gualtieri, believes that the EU would be wise to make common finance a permanent feature, he agreed that members must demonstrate they have been able to implement successfully plans based on shared priorities. For Pierre Gramegna, Luxembourg's finance minister, given the six to seven year timescale of recovery and resilience programmes, it is too early to discuss what comes after. “Members will have to show that these spectacular amounts of money have been well spent,” said Mr Gramegna, pointing as well to the need for cross-border investment to justify permanent facilities. Mario Nava, the EU commission's director-general for structural reform support, also kept his feet firmly on the ground, emphasising that the Recovery & Resilience Facility is not a fund and that conditions apply to disbursements. Targets must be defined and performance measures laid down in governance systems to ensure money is well spent. Mr Nava addressed the need for structural reforms and the issues that accompany these. Digitalisation brings a requirement for up-skilling and re-skilling, for example. “Reforms are political from beginning to end, and they are not easy otherwise they would have been done years ago,” he observed. This is a matter to which Daniel Gros of the Centre for European Policy Studies alluded when saying that the factors limiting Italian growth are not factors that cost money. Italy has the resources, he said. “Even if EU resources are well spent that doesn't necessarily matter because the other factors count.”

Debt, capitalisation and private capital

One of the conference's sessions carried the title: “Investing in getting out of the tunnel”. However, many of the total of thirty-plus speakers who participated in the other six sessions spoke about the challenges that the pandemic has brought for business (and countries) in the matter of debt, and the consequent need for re-capitalisation, and about the role of private capital in recovery. For Fabio Panetta, member of the European Central Bank's executive board, the post-pandemic world offers opportunities as well as “huge challenges”. If recovery funds are not deployed effectively then debt sustainability will become a big issue. “This year has been a year like no other, but 2021 will be a year of weak demand and great uncertainty,” said Mr Panetta. And it is into this near future that savers and institutional investors are being asked to channel their funds. Elisa Menardo, a policy and public affairs director, observed that public capital provided during the emergency has provided a bridge and that private capital now needs to be mobilised. Noting that the pandemic has forced the whole world to think about attracting equity into business, Michael Cole-Fontayn, AFME's president, warned: “Europe will be competing for global capital.” He added that appropriate and efficient governance is needed to support recapitalisation. Jacqueline Mills, AFME's head of advocacy, pointed to the need for financial markets to be competitive, which means developing primary markets, raising the liquidity of secondary markets and lowering transaction costs. “We need to give investors good experiences when they invest in our markets,” said Ms Mills. But there are barriers, and they must be removed. According to Anna Gervasoni, general manager of AIFI (the private equity, venture capital and private debt association), cultural barriers in Italy are a drag on investment in risk capital. The question of financial culture also worries Emanuele Orsini, vice president of Confindustria (the industrial employers' confederation), who sees SMEs' dependence on bank loans as a major obstacle to recovery and growth. And the barriers are not only cultural, as Eurofi's president David Wright observed, with legislative and fiscal barriers also discriminating against equity investment. With the support firms have received this year having expiry dates, and facing the biggest recession in centuries, dealing with these issues is urgent. “This is not the time for normal procedures and just drifting away into non-resolution,” warned Mr Wright. Words of optimism came from Sir Roger Gifford, president of the Green Finance Institute. “There is an extraordinary increase of interest in green finance. There is growing investor demand and a large amount of ESG dollars looking for green products. We need more products,” he said. Perhaps Europe's Green Deal will be an encouragement.

Banking, insurance and rules

Twelve years ago banks were both the cause and the victims of the financial and economic crisis. Thanks to major efforts to boost capital over the past decade, they have been able to play an essential part in managing the current crisis, observed Nadia Maria Calviňo, Spain's minister for the economy. “Banks have been at the heart of dealing with the financial and economic fallout from the pandemic,” echoed Mr Cole-Fontayn. And they still are, as a second wave of infections continues to affect countries across the continent. With the second wave creating further difficulties for businesses, Giovanni Sabatini, director-general of ABI (the Italian banking association) told the conference of his concerns about the tight regulatory hold over bank lending. Automatic application of rules regarding loan quality (calendar provisioning) would have an extremely damaging impact on businesses in the Bel Paese, he warned. “We must avoid the trap of automatic downgrading,” said Mr Sabatini. To concerns advanced by Mr Gros about the granting of credit to firms already in difficulty before the crisis, and about the impossibility of saving all financially stressed firms from going under, Mr Sabatini replied, “The art of the banker is that of evaluating credit worthiness, and deciding which firms can manage debt and which cannot.” Even so, one outcome of the crisis will be an increase in business failures, and Antoinette Monsio Sayeh, deputy managing director at the IMF, warned of the need to prevent cascading bankruptcies. Like financial markets and banks, insurers can also claim to have had a “good” crisis so far. For Maria Bianca Farina, president of ANIA (Italy's insurers' association) the fact of being well capitalised, with capitalisation that is twice the regulatory minimum, has allowed the Italian insurance industry to face the crisis, and a sharp fall in premium income, with confidence. But like Mr Sabatini, she finds some rules restrictive and discouraging, particularly those concerning investment. Channelling the resources available in insurers' balance sheets towards investment in the real economy is obstructed by rules and by asymmetric taxation. Despite the pandemic, or because of it, members of both ABI and ANIA have made progress in boosting digitalisation this year, as the conference heard from Pierfrancesco Gaggi, president of ABILab, and Alessandra Pasquoni, ANIA's head of finance.

Cooperation and multilateralism

Probably the most cheering session of the conference was the final one, with its title “Shared visions and cooperative leadership for Europe and the world”. Speaking from Washington, Mark Sobel of the Bretton Woods Committee told the conference that, following the election of Joe Biden, “relations will improve and the tone will be much better.” However, although President Biden is pro-EU, this will not mean that differences will disappear, he said, pointing to tensions between Airbus and Boeing as an example. Mr Sobel sees the US and the EU working together, and on the G7 and G20 and through the IMF, in dealing with China and on security. He expects the US and the EU to cooperate through the IMF and the World Bank on the question of debt relief and in helping emerging markets that have been badly affected by the pandemic. In fact, dealing with the effects of the pandemic is a priority for the IMF. But the pandemic must be tackled everywhere, said Ms Sayeh, who expressed appreciation of the EU's support for Covax. And she spoke positively about Next Generation EU and how Europe's Green Deal will build the foundations of its twenty-first century economy. The EU's programme provides a once-in-a-century opportunity, she said, warning that returning to a combination of growth and inequality is not an option. Perhaps Covid-19 will lead to a new Bretton Woods, suggested Maria Chiara Malaguti, president of Unidroit, sensing the same atmosphere and the same political will that underlay the mission in 1944. Ms Malaguti sees the EU's shared vision, common agenda and cooperative leadership as a powerful force for furthering the general interest. Leadership counts, and on the question of the green economy the EU is in the forefront, said Antonio Parenti, head of the European Commission's representative office in Italy. He believes the green revolution will cause a complete overhaul of economic life, not only in manufacturing but also in finance. In the matter of green strategy, through Next Generation EU “the EU is putting its money where its mouth is.” Bernard Spitz, head of European and international affairs at MEDEF, the leading French business association, pointed to how the Covid-19 crisis has reinforced both strengths and weaknesses. Where Bretton Woods led to the establishment of the International Bank for Reconstruction and Development (IBRD), an institution tasked with re-building Europe after the second world war, a twenty-first century Bretton Woods would build a digital and green world, suggested Mr Spitz. (Mr Spitz noted that Europe was represented at the Bretton Woods conference in 1944 by John Maynard Keynes and by Pierre Mendès-France, who would become the IBRD's director.) Surely no fact from this difficult year exemplifies the value of global cooperation better than the discovery of vaccines against Covid-19 in record time. Pointing to the global reality of the World Health Organisation and to the international nature of pharmaceuticals companies, Nicolas Véron of the Bruegel, Peterson Institute, said, “The vaccines are a triumph for science.” And pharmaceutical science is increasingly a global, cooperative business, as well as a highly competitive one.

Summing up Rome Investment Forum 2020, Paolo Garonna, FeBAF's secretary-general, described the year as an unexpected tragedy, However, the right conditions have been created for a recovery, in which the financial sector has a crucial role to play. The financial firepower is available, he said. The ingredients are there - the challenge is to put them together. Reform and sustainability are two keywords to describe the objectives. “At the end of the tunnel there is a better world. There is no going back to the old order,” said Mr Garonna.

Buon Natale e Felice Anno Nuovo!

Merry Christmas and Happy New Year!

Joyeux Noël et Bonne Année!

¡Feliz Navidad y Próspero Año Nuevo!

Frohe Weihnachten und Ein Gutes Neues Jahr!

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