“It is not because things are difficult that we do not dare, it is because we do not dare that they are difficult” (Seneca)

This volume discusses the financial challenges that Eastern Europe and the Pan-European region are facing in the Covid Era. It collects several contributions prepared in connection with the Trieste Eastern Europe Investment Forum that the Italian Banking Insurance and Finance Federation (Febaf) organized in cooperation with the MIB Business School in June 2020. The role of banks, insurance companies and financial markets is key to providing not only liquidity and emergency support, but also supporting the recovery and the transition to a more resilient and sustainable economy and society. The economic and financial integration of the EU with Eastern Europe and the whole Pan-European region is both a pre-condition and an outcome of greater stability and sustainable development. The book discusses a number of steps and initiatives towards the establishment of a Comprehensive Pan-European Economic Partnership that represents the outer circle of “wider European integration”. Within such a Comprehensive Pan-European Partnership, investment and the financial sector take a driving role.

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Covid Era Finance in Eastern Europe

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Introduction

PAOLO GARONNA, FRANCO DELNERI, FEDERICA SEGANTI

This volume collects several papers and contributions prepared in connection with, or as a follow up to, the Trieste Eastern Europe Investment Forum and to other initiatives and webinars that the Italian Banking Insurance and Finance Federation (FeBAF) organized on the topic of the Pan-European economic and financial integration, i.e. the process linking the European Union to eastern Europe and the Euro-Mediterranean region. The Trieste Eastern Europe Investment Forum was organized by FeBAF in cooperation with the MIB Trieste School of Management in 2020. The red thread linking together the different papers is the common perception of the need for setting in motion a Pan-European process of integration, a holistic and multidimensional process that brings together all the components of the European “family”, and the belief that the economic and financial dimensions of this process represent a driving force and a leading component.

In February 2020, the European Commission presented its proposal for a new enlargement methodology. “The whole process needs to be more credible, more predictable, more dynamic and more political”, stated the European Commissioner for Neighbourhood and Enlargement, Olivér Várhelyi, while presenting the Commission’s proposal. The purpose of the proposal is to re-establish a credible perspective for the EU accession of the countries of the Western Balkans. The reform of the enlargement methodology is an ongoing effort and provided an important political signal. It kicked off in fact in the autumn of 2020 in connection with the failure of the European Council to open accession negotiations with North Macedonia and Albania, which had had a very negative impact on the public opinions of the region. The disappointment was particularly acute in North Macedonia, which concluded in 2019 an historic agreement on a name change to placate Greece. That was the time therefore to provide a realistic path towards accession for these countries, overcoming mistrust and the sense of frustration and discrimination prevailing in many candidate countries.

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On 10 November 2020, at the Berlin Process Summit, the European Commission welcomed the commitment expressed at the summit in Sofia by the Western Balkan leaders to further strengthen regional cooperation as a way to advance on their European path. The region’s positive response to the Economic and Investment Plan, its commitment to enhanced connectivity and endorsement of key initiatives such as the establishment of a Common Regional Market, the launch of a Green Agenda for the Western Balkans and further support to Roma integration represent positive developments that help accelerate the post-pandemic recovery and spur sustainable economic growth.

The President of the Commission, Ursula von der Leyen, said ahead of the summit: “The Western Balkans is an absolute priority for my Commission since my very first day. The region’s future is in the European Union. 2020 has been a challenging year but we firmly stood together. Our Economic and Investment Plan recently adopted will speed up the economic development of the Western Balkans and it will boost its convergence with the European Union, support the implementation of fundamental reforms and bring the region closer to the EU single market. This plan can help you to change the daily lives of your people and the business of the region four to five years from now.”

The initiatives endorsed in Sofia build on commitments previously taken by the region at the EU-Western Balkans Summit in Zagreb in May 2020. They have been also supported by the Economic and Investment Plan for the Western Balkans adopted by the European Commission on 6 October 2020. This plan aimed to mobilise up to €9 billion of EU grants to speed up the region’s socio-economic recovery from the COVID-19 pandemic and accelerate its economic convergence with the EU. In addition, it foresaw a new Western Balkans Guarantee Facility, which can raise a volume of investment of up to €20 billion.

The Pan-European Perspective

Why do we focus on the Pan-European perspective? And what role investment and financing can play therein?

As always, what happens in the Balkans does not all come from the Balkans, nor does it remain in the Balkans.

On 1st January 2021 Brexit eventually materialized. The European Union has lost a big and important member. The UK in turn has embarked on a stand-alone journey fraught with uncertain threats and likely disappointments. New partnerships must be created, built on the ruins of the ones that have been destroyed.

Other European and global players have been actively engaged in the region. Even though Russian aid seemed at first to be promoted less and appeared less visible during the pandemic, compared with previous natural disasters, the Russian-developed vaccine can potentially provide a significant leverage for Russia.

Less determinedly, but getting itself more and more deeply entrenched every day, China has advanced inside the continent from the edges, gaining a strong foothold for its trade and investment, acquiring strategic assets, providing or promising loans...
under terms that are different from the standards conditionalities of the EU and other international financial institutions.

Chinese investments do not necessarily are antagonistic to EU integration. There are several areas where cooperation is promising (e.g. infrastructure). However, issues concerning the application of the rule of law, democratic values, standards of transparency, excessive indebtedness, and possible political dependencies remain, creating sometimes frictions and sometimes mistrust.

Gulf monarchies have also entered the Western Balkans and invested in the social infrastructure (roads, schools, hospitals).

The relationship with Turkey has significantly deteriorated. On the one end, its Government seemed to take a transactional and even confrontational attitude, undermining its status as a candidate country and as a future EU member state. On the other, several initiatives of EU member states, take for instance the so-called Berlin Process, by singling out the six western Balkan countries of the region have cut out Turkey from the group risking isolating her and encouraging neo-Ottoman sensitivities. Nevertheless, Turkey has kept promoting its commercial interests in the Balkans energetically. Its influence therefore has become more evident – and not only in the Western Balkans, since the EU’s dependence on Turkey for managing immigration has become more important.

The flicker of hope of the Arab Spring uprisings that began in late 2010 was unfortunately quickly followed by disillusionment, restored autocracies in some places and by turmoil and chaos in others.

The 2016 election of Donald Trump as U.S. president has not made things easier. His disdain for alliances and multilateral cooperation, aggressive trade policies, and open dislike of European integration has put into question the importance of the old transatlantic partnership for the region of Eastern Europe. But the new US Presidency of Joe Biden has given new impetus and thrust to the alliance and opened the way to new initiatives that involve the US in the region and contribute to regional and global stability and growth.

At the FeBAF’s Rome Investment Forum of December 2020, Mark Sobel, from the Advisory Council of the Bretton Woods Committee expressed eloquently the trust that “multilateral relations will drastically improve with the new US Biden administration. The news is highly positive”.

Looking back to the events of the last 10 years, we see that a number of fundamental assumptions about the EU’s view of its place in wider European region, and in the world have to be redefined. The starting point of this redefinition is the awareness that the context in which the European integration processes are taking place has fundamentally changed.

_EU’s Eastern and Southern Partners_

Although the resources mobilized are relatively abundant, the approach towards the EU’s eastern and southern partners has proved to be on the whole ineffective. This has called into question the results of the European Neighbourhood Policy (ENP) in
its entirety, as agreed actions to address migratory flows and terrorist threats, such as the Europe-Turkey Migrant Agreement, took place mainly outside the framework of the ENP de facto weakening the impact of Community policies in favour of intergovernmental ones. Another case in point are the relations of the EU with Ukraine, Moldova and Belarus.

2020 should have been an important time and occasion for relations between the EU and its eastern and southern partners to develop and intensify. Not only because 2020 marked the 25th anniversary of the Barcelona Declaration, but also because the EU was focused on the strategic programming of the new “neighbourhood, cooperation to development and international cooperation instrument” (NDICI). The latter has merged most of the existing external instruments, and correspondently also merged the relative financial resources. In the instrument, the Commission included measures to promote greater investment, for example through the “European Fund for Sustainable Development” as well as a Guarantee Fund on external action, with the aim of enabling the EU and the EIB to promote private and public investment by partially hedging investment risks.

In July 2020, after negotiations that lasted four days and nights, the EU heads of state or government endorsed the long-term budget or Multiannual Financial Framework, and with it the Next Generation EU. On 10 November 2020, the agreement was sealed with the endorsement by the European Parliament. The last step of the process took place on 17 December 2020, with the final adoption of the 2021-2027 package by the Council of the European Union. The regulation provided a long-term budget of € 1,074.3 billion for the EU27 at the 2018 prices, including the integration of the European Development Fund. Together with the “Next Generation EU” recovery instrument of € 750 billion, the budget allows the EU to provide an unprecedented € 1.8 trillion of funding over the coming years to support recovery from the COVID-19 pandemic and the EU’s long-term priorities across different policy areas. Therefore, the advent of the coronavirus represented a new test for the determination of the EU to make progress in its economic integration. Therefore, the pandemic was a “game changer” for the EU.

But the crisis did not bring about a corresponding change in the support of the resilience of our eastern European and Euro-Mediterranean partners and in the ability of the EU to continue to be influential in those regions. Instead, the EU gave the impression of having a sort of rethinking of its level of ambition in the relationship with its near abroad. The EU bloc appeared overwhelmed by the need to face up to the internal economic crisis that hit the continent.

Most of our European partners in the East and the South of the Pan-European space have fragile health infrastructures, not to mention the economic and the financial ones. The economic consequences of the crisis we felt in the EU were also strongly felt in Eastern Europe and especially the Mediterranean region, where actually the impact was much worse than in the EU Member States. Those countries were totally unprepared and unable to mobilize a correspondingly adequate response up to the level of effort needed to get out of the negative spiral of the shock.
INTRODUCTION

The EU has shown to be quite reactive and comprehensive in its response to the coronavirus epidemic, even though unfortunately the problem of the absorption capacity of the huge money flows by the economic and productive systems of the Member States remains relevant. The contrast with the response in the countries of Eastern Europe and the Euro-Mediterranean could not be sharper and more dramatic.

The Western Balkans countries enjoyed relatively robust GDP growth from 2015 onwards peaking in 2018, when it hit 3.9%. Economic growth led to job creation, making unemployment rates decline to historically low levels. Despite that, the convergence of the region with the EU average did not show a significant improvement. It is a very slow and irregular process. Great structural weaknesses remain in the local economies. The Western Balkan “growth model”, based essentially on consumption, looked quite vulnerable already before the Covid19 crisis. The outbreak of the global pandemic interrupted suddenly the fragile momentum of economic growth in the region.

Expectedly, the consequences of the Covid19 crisis for the Balkan economies were severe and dramatic. If left without significant external financial support, the socioeconomic situation in the region will quickly deteriorate further. Consequently, not only living standards will worsen as unemployment rates rise again, but even more dramatically, the economic shock could be followed by further democratic backsliding and social instability.

At the time of the Coronavirus pandemic, the shared destiny of the Western Balkans and the EU has become more apparent and concrete than ever. That is why we believe that this moment should be seized as an opportunity to face up to the common threats and weather the current hardship together, making people feel they are part of the same community, and strongly motivating Governments to speed up the reform process and create the conditions for fully integrating the region within the EU.

Do the EU peoples and the Eastern Europeans have other options?

Not really. All those peoples have their population in Europe. Their economies are inextricably linked with one another. Their societies have a perceived European identity and have been gradually converging towards the European model for several years. In the current competitive context though, failure to act together absolutely and fast could amount to a dangerous backtracking on previous expectations and commitments that could take many hard years to redress. Faster progress towards the future membership of the Western Balkan countries in the European Union is therefore more important than ever. The European Union has repeatedly stated that it remains firmly committed to this goal, as demonstrated in March with the endorsement of the revised enlargement methodology and the decision to open accession negotiations with Albania and North Macedonia. But further progress in the enlargement process by the other countries of the region is also needed.

Moving forward on reforms and cooperation is essential for another reason: over the past years, the Western Balkans have experienced a challenging migration cri-
s. The “brain drain” of often highly skilled people towards the European Union is a serious problem for the long-term development of the region.

One positive outcome so far has been the support of international organizations in helping Western Balkan countries to deal with the fallout of the pandemic. The IMF agreed to Rapid Financing Instruments (RFIs) for Albania, Bosnia and Herzegovina, Kosovo, and North Macedonia in April 2020, and for Montenegro in June. Support for the region has also come from the EBRD, the World Bank, the EU, and other important international Institutions.

However, the pandemic is likely to make many challenges even more difficult to address in the future. Faced with the severe economic fallout of the shock, for example, governments must devote large shares of their spending to crisis-fighting, further reducing the funds available for important public infrastructure and welfare. There is also the risk that the pandemic leads the EU to focus even more on internal matters, much as happened during the euro area crisis of the early 2010s, reducing the focus on the enlargement, giving a further blow to the expectations and hopes of the people, creating new divides and fragmentation in the fragile fabric of European society.

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The Transition to the Post-Covid Economy in the Pan-European Region: a Crisis not to be Wasted

PAOLO GARONNA*

“It is not because things are difficult that we do not dare, it is because we do not dare that they are difficult.”
Seneca

I. INTRODUCTION

The double shock of the Covid-19 pandemic, affecting both health and the economy, has dramatically hit the Pan-European region. In so doing it has unveiled entrenched vulnerabilities and new polarizations. The comparative strengths and weaknesses of Europe in the new geo-political context, particularly in comparison with the other global players, have been laid bare. The sinister celebrations of “Brexit-accomplished” at the turn of 2020 and 2021 did not resonate well with the European public opinions, including in the UK. They took place in fact in the throes of successive waves and unforeseen mutations of a pandemic global contagion that is far from being brought under control. In the troubled waters of this century’s close interdependences, “going alone” strikes as being a fool’s-paradise and a recipe for disaster. Besides, it distracts attention from the need of building credible and resilient alliances. There is a sea of difference between heroic individualism, singleness and orphanage. There can be no freedom in solitude, no independence in isolation. A lesson that hopefully is being brought home in many corners of the world, from post-Trump America to Asia, from Israel to Africa, and most noticeably in Europe.

1. Paolo Garonna is Professor of Political Economy at the Luiss G. Carli University of Rome and Secretary General of the Italian Banking Insurance and Finance Federation (FeBAF). I gratefully acknowledge comments and precious advice from F. Delneri, R. Edwards, A. Gomez de Agreda, F. Mazzaferrro, A. Iozzo, G. Svilanović and D. Sugranyes Bickel. I have also drawn on contributions provided in several webinars organized by FeBAF in 2020 with the participation of S. Ambrosin, H. Ben Hassine, L. Cirinà, T.Coratella, M. De Andreis, F. De Luca, A. El Karm, E. Farris, G.M. Gros-Pietro, M. Meliconi, F. Palanza, S. Pedrazzi, E. Quattrocchioche, G. Rizzuti, R. Signorini, L. Zannier. I thank F. Bassanini for his comments and for passing on to me interesting documentation on the Milhaud Commission, of which he was a member. Of course, all remaining errors and omissions are my own responsibility. The views expressed in this paper are only mine and do not necessarily reflect those of the related institutions.
The turbulent turning point reached in US politics sends us a glimpse of hope (amid many shivers): after coming to terms with the severe long-term damage done by the outgoing administration, the US can, and will re-engage with its historic allies at the international level, which promises well for the reconstruction of some kind of global order. But this remains a formidable challenge. It implies a long and difficult road ahead of mending fences, healing wounds, and picking up the threads of our obsolete multilateral system. A system that cannot be simply patched up back together but will have to be reinvented.

The new world that is taking shape as we get out of the Covid tunnel appears to tilt conspicuously towards the East. It is in Asia that the response to the pandemic has been most effective. See for instance the success in countries like Korea, Japan, Singapore and China in terms of testing and tracking the infection, and therefore targeting remedial action. Equally effective has been there the effort of containing and managing the damage to lives and livelihoods. In Asia, the economic recovery and the social reactions have proved more rapid and vigorous. Hence, the impact on trade growth, incomes and jobs has been less acute. The conclusion in 2020 of the Regional Comprehensive Economic Partnership agreement, involving all the major economies of the region (except India), has sent a powerful and concrete signal of the determination of Asia to pursue trade and investment liberalization and economic integration.

Europe has shown to be well placed to do its part in this challenging context. In the eye of the storm, it managed to hold up remarkably well. It showed moderation and ability to exercise soft power. Facing up to resurgent protectionism and trade wars, and in contrast with the adventurous protagonism of several players, Europe stayed the course upholding its values and long-term perspective. She did not fall into the “Thucydides trap” of considering each competitor, particularly the successful ones, as threats or “systemic rivals”. She was bold enough to take, in response to the unprecedented crisis, unprecedented steps towards deeper economic integration. The Next Generation EU, the Green New Deal, the new trade and investment agreements with Vietnam and Mexico, Canada, Japan and Singapore, the EU-China partnership agreement signed at the end of 2020, etc. etc. Taken singularly, these may appear as small steps considering the broad and complex framework of global disorder that must be sorted out. But they amount to courageous leaps forward for the individual small fragmented and inward-looking European nation-States (see Leonard and Shapiro).

There is however a significant black spot in the sky of the European constellation. It is not a new one, but one that we have often stigmatized and analysed (see for instance Garonna 2020). It is the EU’s timid and inconclusive approach to her near abroad, the Europe of Eastern Europe and that of the South Mediterranean. I refer here to the policies that the EU must unfold to match the challenges coming from the whole and the specific parts of the Pan-European space, its own space. Europe has shown that she does not have a long-term vision and a credible approach towards the pan-European space, and most notably towards the “peoples” of the East and of the South of that space. Which amounts to saying that Europe does not have a vision for Europe, and the future of Europe.
In this paper I will briefly review the “unfinished business” of South Eastern Europe, and the “interrupted business” of the Euro-Mediterranean. In spite of the considerable differences within and across, these areas – I believe – should be considered together. And together should be addressed and involved the peoples that live in those areas. Not only because they are the EU near abroad, or “neighbourhood”. But above all because they represent “wider Europe”, i.e. another dimension of Europe, having a legitimate claim on the common culture, identity, attractiveness and destiny of the same “Europe”, from which the EU draws hers.

The pandemic has created in Europe new divides and new inequalities that have piled up on top of the frustration disappointment and incomprehension generated by the failed convergence and integration policies of the past two decades. But the same pandemic crisis has also given the opportunity of a wake-up call and a leap forward of responsibility and solidarity. This opportunity should be seized upon in a world where the EU can and should become protagonist in the construction of a new global order, starting from its own backyard or better starting from Europe itself. The paper then discusses a number of steps linked to the pandemic-age recovery that would represent a building stone for the construction of the outer circle in the concentric circles structure of European integration. I called it a Pan-European Comprehensive Economic Partnership and gave the financial sector a driving role in it.

The situation in the Mediterranean has become even more dramatic. For a lot of reasons, among which I single out and discuss in this paper the gradual phasing out of the concept and the perspective of the Euro-Mediterranean integration, i.e. the “betrayal of the Euro-Mediterranean” by the EU. I argue and make a strong plea for exhuming the Euro-Mediterranean approach and investing on it as a priority. In the absence of the Euro-Mediterranean perspective, the southern shores of the Great Sea have “returned to Africa” (see Dworkin). I argue that the Euro-Mediterranean perspective should not be seen as an alternative or in opposition to pan-African or Afro-Mediterranean integration. The latter should be strongly supported by the EU, but it is undeniable that the Pan-African perspective amounts to a much more complex long-term and challenging endeavour and should not take precedence over the more urgent EU commitment to the Euro-Mediterranean. Monetary and financial stability, public indebtedness, payments, constrained fiscal capacity, climate degradation, social polarizations and conflicts, require deeper and wider intervention. I discuss therefore the need for a Pan-European Monetary Fund and a Pan-European Development Bank.

After reviewing the discussion in the past on the establishment of a Euro-Mediterranean Development Bank, I conclude that this role has now been taken authoritatively and credibly by the EBRD. But to make it more effective and inclusive, a significant reform of that institution is required.

Above all, integration requires the development of cross-border banking insurance and finance at the pan-European level. To that purpose the bilateral and multilateral dialogue between the financial communities of the EU, Eastern Europe and the Euro-Mediterranean should be further intensified and fully exploited.
2. EASTERN EUROPE TRAPPED IN MIDSTREAM

It was particularly the second wave of the pandemic that hit Eastern Europe with tremendous and unexpected force. The impact on Covid-exposed sectors, highly represented in the local industrial structures, was acutely felt. Think of tourism, retail trade, travel and personal services. Think of the frail and patchy health systems that became quickly overburdened by the concentration and virulence of the contagion. The shock gave evidence to the limited capacity of those economies, and societies, to respond to crises of such magnitude: the constraints in countercyclical fiscal expansions, the fragmentation and under-capitalization of the corporate sector, and the limited resilience of household consumption and indebtedness capacity (see Legatum). The outcome was predictably the widening of the gap between eastern Europe and the EU, increasing poverty and social polarizations, and creeping resentment against the élite, local regional and European, and often the concept of Europe itself (see also Freedom House).

The EU attitude at the peak of the crisis was not able to dispel doubts and resentment. The EU gave ambivalent signals towards Eastern Europe. The troubled opening of accession negotiations with Albania and North Macedonia confirmed the grounds for cynicism and the fears that EU accession remains a distant dream, almost a mirage. After all enlargement (a word that in EU circles is now carefully avoided, almost a taboo) is subject to lengthy, bureaucratic and politically manipulable procedures. It could be sabotaged by the partisan convenience of any election in any of the 27 EU countries (and 2021 and 2022 see elections in Germany and France). Moreover, the distance between aspirations and realities has become sidereal when confronted with the difficulties that accession poses for Kosovo, Serbia and Bosnia. The hardening of the tone and the transactional confrontation with Russia and Turkey have confirmed that the stumbling blocks of the negotiation procedures are by-and-large political, and intergovernmental, rather than linked to purely economic indicators of convergence, reform and popular engagement (see Jolly).

In this unfriendly climate the concrete help that the EU has provided to the region, in terms of emergency relief, got very limited traction. So did the promise of an “economic recovery package” or “a number of regional investment initiatives” mentioned by the State of the Union Address of 2020 (see Von der Leyen). Such economic packages are included in the framework of the discredited and ineffective Eastern Partnership and neighbourhood policies. Sheer palliatives. So, the emphatic statements made in official talks, and included in Ursula von der Leyen’s State of the Union address, whereby the “future of the whole region [is] in the EU”, sounded empty and cosmetic to the disenchanted ears of the diverse inhabitants of Eastern Europe struggling for livelihood and life in the middle of the pandemic. The reality is that in that same address, the EC President mentions Eastern Europe basically only in relation to the intergovernmental and political conflicts that plague the hot spots (“troubled neighbourhoods”) of the region (Brexit, Belarus, Turkey, Georgia, Ukraine, the Eastern Mediterranean). The EU approach seems to be dominated exclusively by self-serving security concerns, and migration. If you compare this ap-
proach with the “charm offensive” of the Governments of China, Russia and Turkey, and their often-vocal anti-EU tone, and the opportunist attitude of the local political élites, too often ready to play the ones against the others, it is not surprising to see that the “European dream” in the region has weakened significantly in the eyes of the electorate (see Shopov). The challenges of the post-Covid recovery in Eastern Europe appear therefore really daunting. Not only for the peoples concerned, but also for the future of Europe in the region. Not only in relation to the viability of needed, and often painful, reforms, which are at risk of being crowded out by the emergency measures, and the economic and social spill-overs of the deteriorating situation. But also, and most notably, in relation to the geostrategic and political implications of the recovery.

3. THE POST-COVID OPPORTUNITIES FOR EASTERN EUROPE

This picture of backwardness and inconclusiveness of EU policies stands in sharp contrast with the new opportunities emerging from the post-Covid transition. The quick recovery of the industrial (manufacturing in particular) sector has shown the resilience and the flexibility of the global and regional value chains (GVC). Facing the new challenges, it was shown that there is no going backwards in the trend towards globalization. Rather, GVC have been reformulated and adjusted to the new situation (see LaCroix). They tend to become shorter, more digital and above all more regional. The potential therefore for Eastern Europe to become a hub for the near-shoring of investment and technology is enormous and most promising. Its linkages with EU manufacturing (particularly in Italy Germany and Austria), its facilities for logistics, warehousing, e-commerce and telecommunications, provide precious assets for the wave of new investment underway that is spurred among other things also by the ambitious recovery and resilience projects in the EU.

Moreover, the link between health prosperity and sustainable development that is key to the success of the post-Covid recovery provides an ideal ground for giving Eastern Europe a central place. In the new drive towards the green economy, responsible investment (ESG), resilient and social infrastructure, the region is strategically placed. In the leading sectors of the Green New Deal, i.e. renewable energy, transport, TLC, ICT, bio-science, quality of life, smart services, machine tools, research, etc., Eastern Europe can acquire strategic importance and a unique role. From neglected periphery, Eastern Europe could be transformed by the post-Covid recovery into the centre of the European infrastructure networks, and therefore the new frontier of stability security and development in Europe. I believe that the size and scale of the required investment in the post-Covid adjustment can give the pan-European dimension a new centrality.

Promising developments have taken place at the regional level under the impulse of the so-called Berlin process. This political initiative singled out the 6 Western Balkan countries (WB6: Albania, Bosnia & Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia) as being more suitable and prepared for regional integration. At the 2020 Ministerial meeting of the Berlin Process in Sofia, the WB6 endorsed
the Common Regional Market Action Plan 2021-2024, with a focus on trade, investment and digital innovation. The Plan has a strong private sector perspective and orientation, which is ensured through close cooperation with the Western Balkans 6 Chambers Investment Forum, which brings together the business associations of the six countries. Supported also by the Regional Cooperation Council in Sarajevo, and the CEFTA (Central Europe Free Trade Agreement) secretariat, the Plan aims at deeper regional economic integration among the six economies, seen as a steppingstone towards the EU single market. The underlying assumption of this strategy is that integrating those countries among themselves would prepare and facilitate the later integration with the EU. The economic rationale of this assumption stands still to be proved correct by the facts. In the popular perceptions however, it has been interpreted as yet another delaying factor in the politically charged way to EU accession. After the disintegration and the bloody conflicts of the 1990’s in this region, which left profound scars, such a process is more likely to become a detour, rather than a short-cut towards accession. The willingness however of the WB6 to get along with this new condition and embark in such a difficult and probably lengthy process shows that the commitment to accession and its popular appeal represent still strong drivers of reform and market liberalization.

Special mention merits the financial sector in this context. The pandemic crisis has shown that due to the reforms made in the decade following the 2008-2009 crisis, the financial sector has been playing a decisive role in the recovery. It has been often said that in the pandemic crisis the financial sector has proved to be part of the solution, rather than being part (and cause) of the problem (like in the preceding crisis). In the emergency phase, this has certainly been the case in Eastern Europe too. We have seen it clearly in the provision of liquidity, loans, funding for investment and SMEs, public private protection schemes (including against pandemic risks), health coverage, equity and private capital markets, etc.

In the recovery phase, the opportunity is there to accelerate the modernization of the financial sector as part of the wider effort to support the recovery and reconversion of the real economy of Eastern Europe. This implies addressing old vulnerabilities of banking and finance in the region, such as banco-centrism, underinsurance, weak and illiquid capital markets, market fragmentation or “balkanization”, etc. (see Vienna Initiative). More importantly this implies integrating financial markets across the whole region and with the rest of Europe. An integrated, dynamic, open, cross-border financial sector is an essential instrument of resilience and flexibility, a tool for the post-Covid transition and for a greener and more sustainable economy.

To think in those terms, encourages optimism and trust into the future of Eastern Europe. It shows that the private sector and civil society can play a driving role in the post-Covid transition, provided public policies create an enabling environment. It gives also directions for stepping up efforts and refocus policy and business strategies.
4. RELAUNCHING THE PAN-EUROPEAN PARTNERSHIP
BY LINKING IT TO THE POST-COVID RECOVERY

“Never let a good crisis go to waste” Churchill said. And the current one is particularly “good”, i.e. tragic and challenging. But how? The best way is to include Eastern Europe in the extraordinary and creative efforts that the EU is doing to respond to the pandemic and support the recovery. “We do not abandon a friend in need” said iconically the Albanian Prime Minister when he went to see off the plane carrying Albanian doctors and medicines to Italy. Not only is this an opportunity for Europeans to overcome hesitations and show solidarity among themselves. But this is also the right time to realise that in facing a common challenge deeper integration is a must and that therefore the integration process should be pushed onwards. I mean that the next generation European Union, and its homonymous framework of programs and projects (Next Generation EU or NGEU), should fully include Eastern Europe, its economies, its peoples.

What does this imply? First the accession process for the Western Balkans should be credibly relaunched by intensifying preparatory work, setting ambitious timetables and realistic deadlines, supporting reforms and structural transformations (see Varhelyi, and Djankov).

Second, it should be recognized that the 3.3 billion assistance package and the investment and infrastructures plan debated around the EU-Western Balkans Summit of spring 2020 are not sufficient. Not only in terms of the resources put on the table. But above all because stronger, innovative and more inclusive partnership frameworks are required.

Third, in a Bruegel paper (see Cameron and Leigh 2020) an interesting idea has been mooted: to establish a two steps accession mechanism, whereby eligible countries would in a first stage be brought progressively into the single market and given the benefit of participating gradually to recovery and structural funds. In the meantime, they would complete the accession negotiations and graduate at a second stage to full membership. This first step would be like an anti-chamber, a waiting room of probationary membership. This approach resembles that of the Regional Cooperation Council that in the last decade has been promoting first the creation of a Regional Economic Area and now the Common Regional Market. The goal has been that of preparing the countries of the Western Balkans for EU accession in one go later when the time is ripe.

Let me further elaborate around this idea and propose a rounder and more appealing approach: i.e., to create a Pan-European Comprehensive Economic Partnership (PECEP) with similar aims and functions to the ones described in the Bruegel paper and implicit in the RCC approach. Such a partnership would give a concrete encouragement to reforms in the region and convince current EU members that future members will not backslide and diverge from commitments (like Hungary and Poland have been doing recently). The PECEP would represent the outer circle of European economic integration seen as a concentric circle structure. It would cater for the needs of those countries that need more time to get in. It could even create a convenient
space for countries which consider getting out (which as Brexit shows could be a temptation or a concrete prospect for a few countries). Enhanced assistance for post-Covid recovery and reconstruction could leverage on conditionality and be a tool to engage governments, and public opinions, in an emulative reform process. In other terms, to avoid moral hazard, there would have to be continuous and sufficient encouragements and incentives for governments to undertake reforms and progressively fulfil the conditions to attain full membership.

The PECEP would be targeted to fight the pandemic and be considered therefore *temporary* in nature (like the NGEU). It should be open to Russia and discussed with it in a peer and open dialogue. It should also aim at including Turkey. It should give an opportunity for engaging with those countries in the Caucasus and Central Asia that feel and show some concrete form of attachment to the European identity and framework and are prepared to pay the price of it in terms of reforms. In sum it should be comprehensive, and Pan-European (it should also include some Euro-Mediterranean countries, but on this see below). I realize this comprehensive “wider Europe” approach runs against a trend that the EU and some countries of the region have actively encouraged in the last few years, i.e. that of segmenting Eastern Europe into different groupings, which ends up creating new barriers or revitalizing old ones. This has been the case for instance of the WB6 grouping and the Berlin process that have excluded Turkey as a candidate country from the group pushing it towards a neo-Ottoman corner, which by the way is exactly what the Turkish Government liked.

Realistically, I understand that PECEP cannot, and should not, do away with all subregional and sub-subregional arrangements of the past, and the future. But it should make sure that old and new regionalisms operate in the direction of trade creation, rather than trade diversion, do not fall into the trap of the old and new spheres of influence, and remain open to broader memberships. Similar considerations apply to the case of the inclusion of Russia, and the Euro-Mediterranean countries.

Can subregional groupings of economic and financial integration exist and co-exist within a single comprehensive Pan-European framework? And how? In principle, there should be no problem, provided that discriminatory arrangements and arbitrary barriers are excluded. In the theory and practise of international trade there is considerable experience and expertise for the definition of robust and unambiguous evaluation criteria. In practise however, and in politics, this co-existence is a controversial and complex matter.

On this issue, I wish to make three basic observations.

a) Rather than sweeping those political problems under the carpet and dealing with them underground, it is much better to have an open and transparent discussion that would enable mediation and pragmatic compromise.

b) PECEP postulates a “single” or at least a convergent and consistent EU external policy approach, rather than a patchwork of disparate and conflicting foreign policy perspectives linked to different EU member countries interests and orientations. Such a single or coherent external policy should encompass and synthesize all the external policy interests of the EU member countries, East and West of the Rhine, North and South of the Alps.
c) The politics of designing a comprehensive Pan-European post-Covid Recovery Plan is undoubtedly fraught with risks and complexities of all kinds. It risks making everybody unhappy and raising all possible objections. But it is not necessarily impossible. In this context, it is worth drawing an analogy with the post-war European Recovery Plan, better known as the Marshall Plan, which also faced strong resistance from the recalcitrant public opinions of former belligerent countries, but in the end gained widespread support and consensus.

As far as the arrangements for PECEP are concerned, those could be mutatis mutandis modelled after the Brexit accord, or the European Economic Cooperation Area, i.e. a strong trade and investment cooperation platform. The economic nature of such a partnership would permit taking a gradual and calibrated approach towards the sensitive issues of diverging standards of democratic accountability and good governance, applying therefore in full the Jean Monnet philosophy and the spirit of the Helsinki approach. The latter means that liberalising trade and investment relations, deploying economic freedoms and entrepreneurship, enhancing the market economy and its networks, is an effective approach to promote in the long run and from below not only economic integration and prosperity, but also social and political dialogue, the rule of law and democratic values.

European integration has a formidable and holistic “transformative power” that is inherent in what “Europe” means in terms of values, i.e. not only prosperity, technology and the quality of life, but also liberal democracy, human rights, political freedoms. Applying in full this “transformative power of the EU” requires a balanced approach, political wisdom and a sense of moderation, which the concentric circle model may facilitate. It is important to avoid that vicious circles of escalating political and economic conflicts and “disintegration” take root. For instance, the application of economic sanctions across the board for political reasons often impose high social costs to vulnerable populations, whereas the illiberal regimes against whom they were set gaining traction with the public opinion for their propaganda. In the concentric circles model, the inner circle should contemplate both the economic and the political criteria fully complied with. In the other circles access should be granted with the grain of salt, prescribing a minimum level of respect for the rule of law, getting a democratization process going and promoting gradual waves of reforms. When there is a little opening, it pays to put a foot in the doorstep to avoid that the door locks back. At the same time sufficient incentives/disincentives should be given to encourage the reform process going forward (moral hazard). In general, I believe that there should be a correspondence between the nature of the threat and that of the response to that threat. An economic threat requires and economic response; a political/democratic threat a political response; and a security or military threat should be confronted with a security or military response.

The anti-Covid strategy in Europe has been strongly oriented towards sustainability, responsible investment, ESG, and resilience. Therefore, PECEP would not be simply a coalition to reflate the economy and trigger a cyclical expansion. It must be an alliance for economic and political reforms and European integration. The potential
for making of the Pan-European space a hub of post-Covid innovation and a “new normal” for bridging Europe and Asia, Europe and Africa, is quite big and promising: the solid educational infrastructures we find in Eastern Europe, the technological creativity of the people, the geostrategic logistic positioning, the quality of life, art and culture, etc. We find in Eastern Europe the full spectrum of talents and values embodied in the European “brand” and flag.

5. THE KEY ROLE OF THE FINANCIAL SECTOR IN EASTERN EUROPE

The driving role of the financial sector in the post-Covid recovery needs to be highlighted. The keen, and growing, interest of the Italian financial community towards Eastern Europe, shown clearly by the initiatives of the Italian Banking Insurance and Finance Federation (FeBAF), bodes well for the future of financial integration in the pan-European space.

It is not only a question of banking. It is insurance, whose role finds in Eastern Europe a fertile ground of application (e.g. in health systems and health reform, public-private protection mechanisms against new and global risks, institutional investment requiring a long-term and “patient capital” approach, etc.). It is equity capital and encouragement of listing (as an alternative to debt), for which deep transparent and integrated capital markets are a necessary condition. It is private capital, whose complementary role in financing is irreplaceable when dealing with high risk and high value investment, start-ups, scale-ups, firm expansion, frontier and disruptive innovation, and new business challenges. It is pension funds or health funds, shelter of long-term savings, and catalysts of long-term investment.

In the Eastern Europe transition, like in the EU, the financial sector has a fundamental role to play. In a first instance for the provision of liquidity to prevent the collapse of the economy, but then later for managing the needed transfer of resources from declining or unviable activities towards the new businesses, new jobs, new incomes of the future. That is why it should be a major component of the post-Covid Pan-European Comprehensive Economic Partnership.

6. THE DRAMATIC SITUATION IN THE SOUTHERN SHORE OF THE EURO-MEDITERRANEAN REGION

If we compare the threats and risks that the Covid and post-Covid situations posed to Eastern Europe, with those that concern the Euro-Mediterranean southern shore, the related challenges and fears look augmented by a factor of 10 at least (see Ayadi 2, and Panizza). The health toll and the human costs linked to the pandemic crisis have been paramount and continue to rise. The already difficult economic and social conditions made the impact of Covid dramatic in terms of loss of output, jobs and standard of living. What we said about Eastern Europe vulnerabilities, in terms of exposed sectors (tourism, travel, shops and restaurants, SMEs, transport, services, etc.), social traumas (increasing poverty, inequalities, public confidence in the institutions) and hope for the future, applies to the South Mediterranean as well. Ad-
ditionally, there are more specific strains to consider: lower commodity prices, which weigh heavily on the balance of payments of those countries; lost remittances of migrants; huge risks of instability; not to speak of terrorism, wars, migration pressures and authoritarian regimes. Some of the gains in economic development made by the region in recent years are being quickly eroded and could be reversed. Moreover, consider that the fiscal and monetary positions of Governments there and the resource constraints significantly limit the capacity for policy response. Many countries are already in debt distress and considering debt restructuring. That is why we did not see there the kind of vigorous reaction that prevailed in more developed areas. The distance therefore between the north and the south of the Mediterranean shores has enormously increased.

But this outcome has not been caused, but simply revealed and made more acute by the pandemic. In the last few decades, the Mediterranean has undergone an unnatural metamorphosis. What used to be an internal and intercontinental lake knitting together the whole of the old world has been transformed into an ocean, a border region, the no man’s land between Europe and the rest of the world. Un-natural because the sea that was created to “unite what it separates”, as Alexandre Pope put it, is now called upon to separate what was united in terms of heritage, culture and economic relations. Un-natural like it would be moving the columns of Hercules to the middle of the Mediterranean and making them stand on the water; or building the Great Wall between the port-cities of Venice and Alexandria, between Gibraltar and Istanbul; or sailing goods people and capital across the Sahara up and down Africa.

7. THE BETRAYAL OF THE EURO-MEDITERRANEAN

We described elsewhere (see Garonna 2020) how this historic tragedy (Brexit pales in comparison) came about over the last 25 years. The EU celebrated (sic) in 2020 the 25th anniversary of the Euro-Mediterranean Partnership Program or the so called “Barcelona process”, an occasion which resembles more a funeral, or the celebration of a failure, than a birthday party (see EMEA 2020). We have attributed this failure to the “European betrayal of the Euro-Mediterranean”, i.e. the EU – first and foremost the northern European countries – giving up on the perspective, and past commitments, to integrate the northern and southern shores of the Mediterranean.

We have started to realize now what this betrayal has entailed for the Euro-Mediterranean and the EU (see Ayadi 1, Barnes-Dacey and Dworkin). The Mediterranean has become the source of most of the European nightmares: migration pressures, porosity of borders to terrorism, tribal wars and despotism governments, a growing Europe-Islam divide, and the Europe-African one, power and military confrontations in the Mediterranean that Europe is unable to manage or even influence, the Chinese filling the vacuum and the US leaving their mess behind (see Aydintasbas et ali). One might object; “but the deterioration of the situation is not, or not only, Europe’s fault”. But no doubt it impinges on Europe more directly and acutely than elsewhere, from the economic social and political point of view. It exposes Europe’s weakness,
often irrelevance, not only in the global exchequer, but also in her own backyard.

The phasing out of the Euro-Mediterranean perspective has been most clearly highlighted by the abandonment of the enlargement long-term vision and the shortcomings of the neighbourhood policies. Shutting down all prospects of EU accession for southern Mediterranean countries, as if enlargement were only an East-West issue, and only a very long-term one, and not also a North-South one, has eliminated the most powerful and popular driver for reform and pro-European relations in the region (see the consequence in Turkey). It has instead encouraged the idea that the Euro-Mediterranean space can be sliced up conveniently and opportunistically into different areas of economic relations based on specific problems and interests of EU member countries. Take for instance the problem of blocking the routes of illegal migration; or the energy relations in terms of oil explorations, gas pipelines, investment in renewables, etc.; the logistics infrastructures and the maritime economy; land transportation and road/rail networks; etc. Consider then the questions of terrorism, security and conflicts, the local conflicts, but also the global conflicts that engage the big players like China, Russia and the US in the Mediterranean terrain. This approach, i.e. segmenting the Mediterranean space into specific questions, which may appear pragmatic. Concrete and reflecting the inhomogeneity of the region, has been very ineffective and has damaged the credibility and reputation of the EU in her ability to understand the real problems of the Mediterranean people, let alone provide effective support. It has been perceived as top down and short term, and suspected to aim at cultivating old and new spheres of influence, pleasing EU electoral constituencies, etc.

I strongly believe that this approach should be ditched. The Mediterranean question should be framed in a completely different way. It should be couched in terms of the pan-European dimension and seen as an integral part of the European integration process, aimed at eliminating obstacles to exchanges and flows of goods and services, and above all aiming at providing mutual benefits to all participating countries, and their populations. In sum, the Mediterranean is one, and should be dealt with as a single economic social and institutional context for dialogue cooperation and integration. A single context both in terms of risks challenges and opportunities.

Unfortunately, this is not the route that the EU is proposing in the 2021 “New Agenda for the Mediterranean” (see European Commission 2021 a and 2021 b). In this self-proclaimed “ambitious and innovative” proposal for a “Renewed Partnership with the Southern Neighbourhood”, we find the good intentions and the customary platitudes of the old EU approach: the “common challenges that turn into opportunities”, the “long-term vision of shared prosperity and stability”, the “post-Covid reconstruction and recovery”, etc. etc. Nevertheless, the money that is put on the table is not negligible: 7 bl. Euros for the period 2021-2027, expected to mobilise up to 30 bl. of public and private investment. This money is expected to be spent in a long list of piece-meal projects and “flagship initiatives”, most of them useful, but with no strategic vision behind and no concrete objectives of economic integration. In the “Joint communication” we find evidence of the usual patronising attitude of the EU on the importance of the rule of law, good governance, peace and security.
How can the EU with such a package expect to achieve “real change” that the ordinary people of the region could feel in their quality of life, is difficult to understand, at a time when conflicts, joblessness, bureaucracy, social polarization and now the pandemic have gone on the rampage.

The document does not even mention the fact that the EU green transition might have undesirable consequences on the economies of this region affecting their gas, oil and primary commodities exports (see Leonard et alii). On the contrary, it is full of grand ideas about the green growth and net-zero prospects for these countries, provided their peoples would embrace the green revolution without hesitation.

It is difficult to see what is new or innovative in this “new agenda for the Mediterranean” of the EU.

8. THE MEDITERRANEAN AS PART OF AFRICA AND ASIA

The unfortunate result of the demise of the Barcelona perspective has been that having the EU decided not to confront itself with the problem of the Euro-Mediterranean, she must now face up to the same problem as one of Africa, and West Asia or the Arab World, which are much bigger more costly and more complex problems to address. It is doubtful that this change of perspective can give fruits in the longer term. So far it is certain that it has given uneven and mixed results.

On the negative side, in the vacuum left by the EU betrayal, other global players have made aggressive in-roads and become protagonists in the Mediterranean: China for instance with its ambitious and pervasive Belt and Road initiative, and Russia with its military bases and energy pipelines. The Turkish regime has taken an anti-EU and illiberal turn raking up neo-Ottoman aspirations and hoping to canvass in this way Islamic and grassroot support and resentment. No doubt, growing conflicts instability and poverty in the region is related to the EU shutting its doors to Euro-Mediterranean cooperation.

Nevertheless, every cloud has a silver lining. The Mediterranean in this period has become more active authoritative and integrated in the African context and in the Arab world, more open to trade and investment and south-south cooperation. This is in essence a positive development. It has been, and should be, welcomed and supported by the EU as a factor for promoting peace stability and development (see Dworkin).

Take the case of Tunisia, for example, whose financial community has engaged in a fruitful and constructive dialogue with the Italian counterpart, represented by FeBAF. Tunisia plays a leadership role in the 5+5 Dialogue, a subregional forum of the ten western Mediterranean countries that, established in 1990, was recently revamped after the decline of the Barcelona process. At the October 2020 meeting of the Dialogue chaired by Tunisia, the Tunisian Minister of Foreign Affairs, Ohtman Jerandi, declared: “The 5+5 Dialogue, which aims at making the western Mediterranean a region of peace stability and prosperity, must define a new road for the Euro-Mediterranean partnership and must take as its priority the development of solidarity”. The implicit reference here is to the need to respond to the pandemic in a concert-
ed and cooperative way. It is worth highlighting also that Tunis is the location of the Libyan Political Dialogue set in motion in 2020 by the Berlin Conference on Libya to move forwards the process of pacification and institution building there with a view to run national elections by the end of 2021. Tunisia plays a key role in this process that is one of the hottest spots for the region.

Tunisia is also part in the Agadir Free Trade Agreement with Egypt, Morocco, and Jordan, signed later by other Arab Mediterranean countries and supported by the EU. The agreement adopts the EU rules on country of origin, it overlaps and competes to some extent with the US FTA with the Middle East creating conflicting regimes and burdens for exporters. Note however that the Agadir process – albeit significant – did not make in the Arab world the progress that had been expected.

Tunisia is also an active member of the Anna Lindt Foundation for the Euro-Mediterranean dialogue among cultures, based in Egypt. Named after the Swedish Foreign Minister murdered in 2003, it aimed at representing the civil society arm of the Euro-Mediterranean partnership. Consequently, it has implicitly suffered of the setbacks of that partnership.

Undoubtedly, the most important event in 2020-21 marking positively the growing dynamism of the African-Mediterranean perspective is the signature and entering into operation of the African Continental Free Trade Agreement (AfCFTA). An agreement involving 1.3 billion people, 54 (out of 55) African countries, which aims at cutting down by 90% tariffs and other barriers in inter-African trade and investment relations (see Fofack, and Flor). The agreement was hailed as an historic moment, it was compared to the Treaty of Rome for its potential impact on the continent’s economy and society. “… [It] can provide the same impetus to Africa as the creation of the Common Market did in 1957 to the European unification process (Flor, p. 1)”. Indeed, AfCFTA starts a process that promises unprecedented opportunities not only for Africans, but also for the EU that has a vested interest in promoting prosperity and stability in its neighbourhood and relaunching its role in economic cooperation and support for the African development. Certainly, the prospect of African-Mediterranean integration should not be seen as an alternative or a rival or competing perspective in relation to the Euro-Mediterranean one. Therefore, it should be strongly and unambiguously supported by the EU. But it does raise fundamental questions and possibly requires a reconsideration of the whole European approach to the Mediterranean.

In that context, I wish to make a few preliminary observations.
1. The AfCFTA, because of its scale, ambition and potential implications for African-Mediterranean integration, shows, or better confirms, the strategic importance of the Mediterranean. Our small sea (mare nostrum) is a fundamental link and hinge for the development of the whole of Africa, and the Arab world, and Western Asia, and the world.
2. Taking a longer-term vision of the future, towards the emerging world and its untapped potential, and therefore detaching oneself from the developed-countries-centred perspective, the balance between core and periphery, risks and opportunities, may drastically change. The other shore of our small sea gives access
to a new frontier of opportunities, new sources of wealth, life energy and knowledge: a young and growing population, raw materials, unexplored cultures, unused capacity, craving for progress. Hence our past and current perceptions of distance and geography may be deeply altered. What Europeans now perceive as being too small a sea, unable to keep away negative spill overs and threats from Africa, might become tomorrow too large, an obstacle separating us from the future. Staying away from the reality of Africa or participating in the “African dream”? This is the question for Europe.

3. The uncertainty of the future may have a paralysing influence and overshadow responsibility and the power of the will. The fact is that opportunities do not lie underground or fall from the sky. They must be created by human action and wisdom. They require a deliberate investment based on a vision of the future. What is the vision of Europe for the future Africa? Asia? And the world? What is her vision for her own future?

Other questions loom large. Should the EU get involved in the African-Mediterranean integration process? And how? Should individual countries play a role, starting from the Euro-Mediterranean EU members? What tools should be made available? Development aid? Bilateral trade and investment agreements? Should we approach the African-Mediterranean process in partnership with other global players? Or in competition with them? How about our main traditional ally, the US?

Add the question of what role is there for the financial sector to play, and what risks and opportunities does the pandemic crisis offer in this context.

The time is ripe not only for raising such fundamental questions, but also for providing answers. There is in most relevant quarters a growing awareness that in the present new economic and political context a resetting and significant discontinuities are needed. A fundamental rethinking is underway on the nature of the relationship between the EU and the southern shore of the Mediterranean. We need more equal and bi-directional relations where not only the concerns of the EU but also those of the people of the southern countries should take priority. A longer-term vision of the region, rather than an opportunistically driven and myopic negotiation. A comprehensive partnership should be based on a common understanding of what unites us in terms of values, culture, the legacy of a common past, a shared identity and vision of the future. Money is important, particularly in consideration of the size of the challenges implied by the current crisis. But it is not everything. A perspective of integration of economies peoples and communities cannot be simply bought with a number of millions or billions of Euros or exchanged through obscure quid-pro-quos, pre-conditions and prejudice. It must be built from the grassroot, with a bottom-up approach, involving the private sector and civil society, and making them feel that they are part of the core of Europe, and not the (expendable) periphery.

The appropriate stage for starting to deal with those questions is the Conference on the future of Europe that is planned to take place in this European legislature.
9. FINANCING PARTNERSHIPS AND INTEGRATION.
THE MONETARY ASPECTS OF THE AFRICAN UNIFICATION PROCESS

The comparison between the European and the African integration processes is the object of an inspiring short research piece by Elena Flor, the Secretary General of the Robert Triffin International Foundation (see Flor 2020). The study points to the lessons learned from the European experience of the post-war period, among others, to focus on the monetary aspects of the African integration process and identify best options for its future. The “European Recovery Plan”, which was the official name of the Marshall Plan in the 1950’s, contained ambitious reforms to eliminate barriers to trade, investment and competition. It established the four fundamental freedoms (movement of goods, services, capital and people) that first led to the Common Market and the Payments Union, and later to the Single Market and the Euro. It was then clearly understood that there are monetary and financial pre-conditions that must be addressed to integrate market economies balkanized and fragmented by national protectionism and diverging standards. These pre-conditions apply also to-day in relation to the situation of Africa and must be focused upon.

The debt question in the post Covid transition is an emblematic and well-known case in point (see Trichet 2). Many African countries are in debt distress, subject to growing external financing needs and volatility of inflows and outflows of private capital. According to the IMF, sub-Saharan Africa may need about $ 290 billion in external financing during 2020-23 (see IMF). The G20 Debt Service Suspension Initiative (DSSI) has so far provided temporary relief, but it has also raised fears concerning credit ratings and market access for the countries involved. Managing debt restructuring, by involving (through the Paris Club or otherwise) official and private creditors, or delaying it, are both very costly and potentially disruptive strategies. But it is also costly and socially painful for poor or middle-income countries to service a growing debt burden thus sacrificing pandemic response or needed public investment. To agree a converging approach at the global level (G20 or IMF) in the context of the current East-West US-China rifts, is going to be very challenging and driven by national politics. In the previous 2008-9 crisis the IMF issued an unprecedented volume of SDRs, but in the current crisis there has been no agreement on a similar measure. A G-30 report (see Ortiz Summers 2020, and Trichet 2020) in response to the pandemic challenge proposed two allocations of SDRs of 500 billion dollars each, and several other vigorous initiatives of the IMF and the World Bank. But it remains to be seen if such good intentions see the light, whether they arrive in time, and produce the expected and needed outcomes. Moreover, the impression is that a lot more is at stake, as we have seen and are seeing in the EU in the implementation of its bold programmes.

A pragmatic alternative to the revitalization of global multilateralism is to foster monetary and financial integration at the regional level. Africans seem to have now well understood the importance of this approach and embraced a long-term strategy of pan-African regional integration. Among the flagship projects of the African Union’s “Agenda 2063”, adopted in 2002, we find those for a common passport, a
single currency, the establishment of an African Central Bank, an African Investment Fund, and an African Monetary Fund. Evidently those are very long-term projects, exposed to all kinds of economic social and political difficulties. The fact that the continent has been growing in the last few years at the rate of 5-6% per annum, and that this rate has exceeded on average the rate of growth of the population, creates favourable conditions for making progress and feeding a virtuous circle. But the threat is there that the current crisis, and possible future ones, will stop, delay or even reverse this positive trend.

Following Flor, I would say that the first “essential steps” for AfCFTA are: 1. The implementation of “payment union” agreements like those implemented in Europe after WWII; 2. The choice of a “unit of account” that would pave the way to a monetary system and eventually a monetary union; 3. The choice of a borrowing currency to finance investment and infrastructure “that does not undermine monetary stability due to the monetary policies of the issuing countries”.

Flor thinks that such a unit, and currency, should be the SDR, as it is “more stable” and includes the world currencies that are most interested in African development. The Mediterranean countries could lead on this by pegging their currencies to the SDR. This would be “over time extended to other African countries, with whom economic relations will strengthen” (ibid.). In a related paper of the Triffin Foundation (see De Rambures et alii), the idea is mooted of creating an African Monetary Fund and an African Development Bank, modelled after the European Stability Mechanism and the European Investment Bank.

These proposals deserve more scrutiny. Would it not be better to target those instruments more specifically to the Euro-Mediterranean? A Euro-Mediterranean Monetary Fund and Development Bank? Should it not be the Euro the reserve and reference currency for this area? We will revert to these questions after discussing the relationship between the Euro-Mediterranean and the Afro-Mediterranean integration processes.


The above-mentioned contribution of the Triffin International Foundation is of fundamental importance. It is inspired by a vision of African integration that is logical, comprehensive and grounded in sound historical analysis (the comparisons with the US and the EU are quite relevant and instructive). It spells out clearly what African Union entails in several different dimensions, and therefore measures up the level of ambition and commitment that the process requires. Particularly interesting is the reference made to the Afro-Mediterranean dimension of the African Union, the leading role that Southern Mediterranean countries can play as locomotives of African development.

It is a fact that Afro-Mediterranean countries stepped up their engagement with Sub-Saharan Africa in the last few years “recognising it as both a leading emerging market and a region whose influence in international politics is likely to increase in
the coming years” (see Dworkin 2020, p. 17). The “return to Africa” of these countries however is not just flowers and romance. The different countries of the region have each its own national agendas that often leave existing tensions and conflicts with Sub-Saharan countries unresolved and may stir new concerns jealousies and resentment. Take for instance the issue of international migrations that is as much a problem for the EU than it is for these countries. “Any impression that Northern African countries are acting as Europe’s enforcers or gendarmes” (ibid.) would create tensions and complicate relationships. Besides, there double status as both Euro-Mediterranean and Afro-Mediterranean countries may be frowned upon and become a source of suspicion. Their “double pursuit” strategy, as it has been called, implies a double commitment to maintaining a privileged relationship with the EU and at the same time deepening their continental ties. A clear demonstration of this uneasy situation is the fact that southern Mediterranean countries have shown no interest in being associated with negotiations between the EU and the African, Caribbean and Pacific group of states for the definition of a new pact that would succeed the Cotonou agreement expiring at the end of 2020.

The EU seems to have understood the important role that Afro-Mediterranean integration can play in the broader African unity perspective. In the guidelines for a new EU-Africa strategy, one of the main goals for the EU is to support African economic integration, as a condition for stability and prosperity that would reverberate positively on the whole of the EU. This implies that the EU should also support African Mediterranean integration and recognize the important role that Mediterranean countries can play in Africa. Egypt, Morocco and Tunisia have active cooperation agencies (Algeria is creating one) that pursue projects and goals similar to those of the EU and have relevant experience. Coordinating efforts between EU and Afro-Mediterranean countries is a sensible strategy. There is also scope for the EU to pursue triangular cooperation with Euro-Mediterranean countries in sub-Saharan Africa, joining together and supporting projects particularly where the latter countries have experience and expertise. This idea was endorsed in a joint EU-Morocco declaration in June 2019. But “triangular cooperation is only valuable to the extent that all parties genuinely share objectives” (ibid. p. 19). In other terms, the EU should be aware of the interests, tensions and rivalries in inter-African relations and act very cautiously and pragmatically.

What relationship there should be in the EU strategy between Euro-Mediterranean and Afro-Mediterranean integration? Should the latter be preferred to the former, as it seems to be the case? Which of them and what is more in the interest of the EU? And in the interest of the south Mediterranean countries?

Before addressing that question, I wish to make a few general considerations. First, when we speak of African unity, as the comparison with US and European unity demonstrates (see on this Flor and De Rambures), we need to take a long, or very long-term view. Rome was not built in a day! Therefore, any impatience or exasperation is unwarranted. But we cannot afford either inertia or a passive wait-and-see attitude. Secular trends do not feature normally a slow-motion progress driven by gradualism and sensible pragmatism. We have instead a succession of breakaway leaps,
accelerations followed by backlashes and dramatic boomerangs (think of the American civil war or the Nazi-fascist interwar nightmare in Europe).

Second, we should not underplay in those secular processes the decisive role of enlightened leaderships and the responsibility of the ruling class vis-à-vis fearful and recalcitrant masses and vulnerable democracies. What I mean is that there are critical choices to be made, now, which should take inspiration from long-term visions but also consider the short-term trade-offs, the political realities and the resource constraints. The pandemic crisis on the one hand, and on the other the EU choice between supporting either the Euro-Mediterranean or the Afro-Mediterranean destination of the southern Mediterranean countries are typical illustrations of such moments of historic decision.

I am convinced that the EU should give priority to the Euro-Mediterranean perspective over and above that of Pan-African Union and Afro-Mediterranean leadership in the African integration process. This priority stems from the perceived interests of the EU economies and communities, and the ideal and political objectives of European unification. Its main reasons are the following: 1. The proximity to the EU of the southern Mediterranean countries. Proximity is a fundamental factor not only in terms of geography, but also in terms of economic opportunities, culture, common heritage and economic relations. 2. The Euro-Mediterranean region is part of the pan-European space. Without it, European unity would be incomplete. Therefore, it would be inherently weaker and more vulnerable. 3. A weaker Europe is less able to provide an anchor of stability for Africa, and for the world. This is a commonsense rule for life-saving intervention: first, make sure you are in a strong position, and only then come to the rescue of the others. 4. The Mediterranean Sea is particularly unsuited to represent the border line between Europe and Africa. In modern times so called “natural borders” do not exist, and Europe has not been considered to have natural borders. But in any instance the Mediterranean Sea would not be deemed to operate effectively as a barrier to trade and economic relations. History and geography prove it.

I am also convinced that the Euro-Mediterranean integration is in the best interests of the south Mediterranean countries and should represent a priority for them. Only Europe can provide an anchor of stability prosperity and democracy for fledgling market economies and democracies. Obviously, it would be up to the peoples of these countries to decide whether they see their future more in Africa than in Europe. The test of the pudding is in eating it. But we need to make sure that their “free” decision is not distorted by a reaction to what we called “the European betrayal of the Mediterranean” or by irrational European paranoias and prejudice.

The argument becomes more compelling if we consider within the EU the interests and the aspirations of Italy, and the Mezzogiorno in particular. Geo-strategically placed in the middle of the Mediterranean Sea, only a few miles away from the Tunisian coast, making the Mediterranean the border between Europe and Africa puts the South of Italy in an impossible position. Patrolling the thousands and thousands miles of coast line for border crossing, transforming the beautiful sandy beaches into dangerous docks for unlawful landings, militarizing the deep sea for the purpose of intercept-
ing smugglers and human traffickers: this is not only a great waste, but it is highly ineffective. The enlargement towards the East, at the end of the cold war, created a convenient comfort zone between Germany and the EU frontier. The sudden stop of the enlargement towards the South left the EU Mediterranean countries exposed to African spill overs and at the periphery of Europe.

Naturally, the benefits of Pan-African integration, were it to be achieved, would trickle down to the Mediterranean, the Euro-Mediterranean and the EU itself. But to argue from that the African process should take priority over the Euro-Mediterranean integration would amount to a triple somersault in irrational expectations. A first somersault, because we expect the southern Mediterranean countries, as weak as they are, to integrate among themselves without the European support. A second, because we expect them to integrate with Sub-Saharan Africa and lead the process of African unity. A third somersault, because we count on these turbulent processes to succeed and provide benefits to the EU itself.

Wouldn’t it more plausible logical and realistic to give priority to Euro-Mediterranean integration, strengthen the Pan-European dimension of European unity, and then bet on the capacity of the Euro-Mediterranean to contribute to the more complex African Union process? If one really cares for Pan-African unity, and advocates for the EU to play a supporting role, she should push for making progress on the Euro-Mediterranean dimension. Giving up on this perspective, sacrificing it on the altar of African unity does a disservice both to European and African aspirations, and provides a convenient alibi to anti-Mediterranean reticence and prejudice, to the lack of courage and leadership of northern European policy makers.

I I. THE FINANCIAL ASPECTS OF EURO-MEDITERRANEAN INTEGRATION

We can now go back to the questions raised above on the monetary and financial aspects of Euro-Mediterranean integration. We argued that the Euro-Mediterranean dimension should take precedence over the African Mediterranean one, even if we recognized the fundamental importance of both. We wish then to apply the insights provided by the excellent Triffin International Foundation papers in discussing African integration, to the Euro-Mediterranean perspective, or even to South-Eastern Europe and the whole Pan-European space. Clearly, those insights become in the latter perspective even more forceful and stringent. The question of some kind of Euro-Mediterranean “monetary system” and of a Euro-Mediterranean “development bank” should be discussed and put at the top of the policy agenda.

The “monetary system” would imply a) “the implementation … of “payments union” agreements similar to those implemented in Europe after WWII”; b) the choice of a “unit of account” as was the case for the European Payments Union; c) the choice of a borrowing currency to finance necessary infrastructure capacity that does not undermine … monetary stability due to monetary policies of the issuing countries” (all quotes from Flor, pp. 3-4). Flor suggests that the best options available for this choice are using the euro, the dollar, or the SDR. From what we argued before, I believe that it would be better, and in everybody’s interest, that the Euro plays this role.
But can the Euro be a unit of account and an anchor of stability for these countries? Can it provide liquidity in time of crisis, finance balance of payments deficits and support in case of debt distress? This idea calls into question the international role of the Euro, its responsibility and outreach in relation to the growth and stability challenges arising in the Pan-European space. Evidently it requires institutional adjustment and fundamental changes in the rules of engagement of the monetary authorities. If this were to be considered unfeasible, a serious political problem would emerge. To invoke the external intervention into the European space of the dollar, or the SDRs, or even the renminbi, would be equivalent to declaring the inherent weakness and vulnerability of the Euro and concede that Europe is exposed to the hazards and shocks coming from its own space. The Euro is still a young and fledgling currency, but it made significant progress as a strong global currency and could use the opportunity of the pandemic crisis to raise its level of ambition, strengthen its international role, and play a role in supporting the stability and recovery of the Pan-European economy. It would certainly be a major leap forward, but a necessary and welcome one, in line with the unprecedented leap forward represented by the Next Generation EU decided upon in 2020.

12. THE EURO-MEDITERRANEAN DEVELOPMENT BANK

The idea of a Euro-Mediterranean Development Bank has a long history behind. It dates back to the 1990’s. It has periodically resurfaced in policy discussions finding always strong resistance and objections from EU, particularly northern European countries.

In the meantime, the European Investment Bank has been active in lending in the region, both in pre-accession and neighbourhood countries. In 2002 a dedicated instrument was created, the FEMIP (Facility for Euro-Mediterranean Investment and Partnership). In 2019 32 new projects were signed in Europe’s neighbourhood, amounting to 3.6 bl. Euros of expenditure. Investment in the Southern Neighbourhood totalled 35 bl. Euros in 2019 since the first operation in 1979. A New Economic Resilience Initiative was launched in 2016 that reached 54 projects worth 5 bl. in 2019 and an additional 15 bl. Euros expected by 2020. The EIB also manages the Climate Action Envelope covering the Middle East and North Africa (see EIB 1).

The EBRD has also developed a set of investment and initiatives in favour of the southern and eastern Mediterranean countries. In the aftermath of the Arab uprising in 2011, the EBRD extended its geographic mandate to the Euro-Mediterranean region investing over 10.5 bl. Euros in more than 230 projects by 2020. The areas of lending and policy advice include energy, climate change, agriculture, tourism as well as human health. In 2020 it co-financed for the first-time risk participation under the Risk Sharing Framework in support of the private sector.

Are these institutions an adequate surrogate for a fully-fledged Euro-Mediterranean Development Bank? What would it be required to add or adjust or innovate to enable these institutions to better cater for the financing needs of investment and infrastructure in the region? Besides, let us consider that after Brexit the Mediterranean
has taken further distance from the City of London, where the EBRD headquarters had been located.

There was a lively discussion accompanying the G8 decision in Deauville to extend the mandate of the EBRD towards the Mediterranean. Some aspects of that discussion look particularly relevant for the current debate and are worth being revisited. The French President Sarkozy established in 2009 an international high-level group, the Milhaud Commission (MC), to analyse the “financing of co-development in the Mediterranean” (this is the title of the Report they issued in 2010). The Commission recommended the creation of a Euro-Mediterranean financial institution, a development or co-development bank, as a dedicated subsidiary of the EIB. This proposal, among the many being discussed, was deemed to be the best in order to address the main gaps in investment financing in the region, that were considered to be the following three: 1. The lack of coordination and focus of the several lending institutions, international and national; 2. The lack of involvement and “ownership” of such institutions by the countries of the southern shore; and 3. The inability to involve private capital and the financial communities at the European and local level. “The Mediterranean finds itself in the paradoxical situation of being undoubtedly the region with the largest number of institutional players, whilst being the only one without a dedicated institution that could catalyse their efforts”. The new institution should have brought together the fragmented competences of EIB and EBRD in relation to the Mediterranean and provided support to the private financial sector, aiming at financial reforms including the shift towards equity funding, guarantees, securitisation, financial innovation and fintech. This idea found great support in intellectual and private circles, was welcomed and relaunched on several occasions by the Union for the Mediterranean, but run against fierce opposition from several European governments, particularly in northern Europe and the Anglo-Saxon world. The preferred solution at Deauville was the extension of the EBRD mandate. The MC however continued to work and produced in 2012 a second complementary report, which took stock of the political decisions that had been taken and made further recommendations (see MC bis).

First, they suggested to keep the idea of a dedicated and targeted Euro-Mediterranean institution on the backburner, but alive. “Le sujet n’est pas clos, ni par le ‘Partenariat de Deauville’, ni par la décision d’étendre le mandat de la BERD à la Méditerranée. Les sujets de création d’une institution spécifique et d’une gouvernance partagée pour le financement du développement ne manquerons pas d’émérer à nouveau” (MC 2012, p. 88).

Second, to encourage an enhanced dialogue among Euro-Mediterranean central banks to promote monetary policy coordination and the gradual implementation of a common space of banking and financial market integration and development. More in general the idea was to update and relaunch the Barcelona objectives of the establishment of an integrated Euro-Mediterranean area of lending and finance, to complement and support the trade and investment integration of the region.

Third, to address the shortcomings of the Deauville decision and establish a joint investment vehicle for long term public investors, a sort of “Recovery Fund” modelled
after the old European Marshall Plan that would focus on a) financial reforms and innovation (integrating local capital markets, alternative investment, private capital, securitizations, etc.); b) shared governance; c) leverage private sources of funding.

It is interesting to note that at least 2 out of the 3 auspices of the MC, prophetically, did make significant progress. I refer to the initiatives of the Central Banks of the region, and the discussion on the Euro-Mediterranean Development Bank (see AnsaMed 2019, and Commissione 2002). From 2004 onwards, the Central Banks of the Euro-Mediterranean have been meeting regularly to discuss issues of common interest. The first meeting was organized by the Banca d’Italia in Naples (see Trichet 1), while the Euro-Mediterranean Central Banks Conference of 2019 took place in Madrid, with contributions from the European Commission, the Union for the Mediterranean, the OECD and several prominent think-tanks and associations. The topics discussed range from monetary policies and balance of payment to macroeconomic policies and financial reforms. Clearly, it would be inappropriate to expect from a technical discussion among independent central bankers specific policy, or better political, suggestions. But the fact that a high-level forum of the Euro-Mediterranean central banks does exist and has developed over more than 15 years a fruitful practice of dialogue and frank discussion looks to me very promising. It is an experience and an opportunity that should not be undervalued and underutilized.

As far as the issue of the role and functions of (one or more) Development Banks in the European space, this has remained throughout the whole period a highly debated and controversial issue. The so called “Camdessus Report” (CR) dealt with the issue in 2010. The Report contained the evaluation of the EIB’s financing activities outside the EU as part of the mid-term review of the external mandate of the Bank for the 2007-2013 legislature. It also issued recommendations for “the improvement of the effectiveness and efficiency of EIB external activity, as well as the reinforcement …of coordination… and visibility in partners countries” (CR, p. ii). The Report made a strong plea for putting the EU financial support tools for pre-accession, accession, neighbourhood, and development cooperation policies in a single consistent and well-coordinated framework, which implied “closer integration of EU financing activities between the EIB and the Commission, as well as the EBRD” (ibid.). The Report highlighted EIB high value added and leverage and suggested to align its business model and means with mandates more closely. It envisaged for the medium term the consolidation of EIB activities in an EIB entity with a specific governance and organization dedicated to operations outside the EU. It went as far as suggesting the creation of a “European Agency for external financing” or even a “major European financing body, integrating the relevant means of the Commission, the EIB and EBRD, thereby forming a “European Bank for Cooperation and Development”.

For the sake of coordination and avoiding duplications and overlaps, I believe that the CR went too far in the direction of consolidation and streamlining. In so doing it neglected and overlooked the fundamental difference that there is and should be from the point of view of governance and organization between managing internal EU and external non-EU financing. It also disregarded the delicate intermediate position of the countries that are neither in nor out, like the accession, neighbourhood
or partnership countries, which in my view includes the Euro-Mediterranean. In case of internal financing, the governance structure should be the EU framework, like it would be the case of a “national Development Bank”. In the case of external financing, the countries involved are third party beneficiaries of development support, and if and when they are involved, they would participate in that configuration. The intermediate category of countries, which would correspond in my view to the constituency of Pan-European non-EU countries, their participation in the governance structure is an absolute necessity as they should develop ownership and above all build motivation to undertake the reforms and the structural adjustments required for convergence and the gradual integration into the European economic space. The conditionality applied to financing in this case would have to be stronger and more closely inherent with the objectives and motivation of the financing.

A significant step forward was made in my view ten years later with the “Report of the High-Level Group of Wise Persons on the European Financial Architecture for Development” or Wieser Report (WR) of October 2019. The Report recognized that the problems raised by previous studies and policy analysis, including the CR and the MC, had not been addressed. There remain “overlaps, gaps and inefficiencies, sectoral and geographical, especially in terms of presence and experience in Africa, of the main European multilateral finance institutions” (WR, p. 3), EIB and EBRD. The paradox is that while the EU and its member states are the largest development donors in the world, and a wide range of financial instruments have been put in place, the outcomes on the ground are questionable, there is not a single EU strategy, the system appears fragmented and even the perceptions and the visibility do not match the efforts made and the resources deployed. Hence a plea for doing more (“Europe needs to engage more in Africa and step up its efforts to address climate change” (ibid. p. 3) and better (more coordination streamlining and consolidation). Three options for such consolidation were considered in WR: 1. Create a new Bank (a European Climate and Sustainable Development Bank) with the EIB, the EBRD, member states and the European Commission as shareholders; 2. Establish a EIB’s subsidiary for its extra-EU activities; 3. Transfer to EBRD the extra-EU activities of the EIB. The Report declares itself agnostic in relation to these 3 different options, simply calling for in-depth feasibility studies and strongly advising in the meanwhile against extending the mandates of both EIB and EBRD.

The first option appears the most ambitious, but it is also the most expensive and disruptive as it runs the risk of adding another layer of intervention, possibly more duplication and inefficiency, more wasteful institutional competition. The second option corresponds approximately to the MC recommendation, even though the MC targeted and limited the geographical scope of such an institution to the Euro-Mediterranean.

The third option looks to me the most realistic and pragmatic one, since it is more in line with the political decisions of the past, and possibly the political consensus of to-day. To make it fly however, it requires introducing significant changes in the structure of the EBRD, echoing the suggestions of the MC. The EBRD governance structure would have in fact to include – in my view – in its membership the Euro-Mediterr-
ranean countries, following obviously a gradual and tailor-made accession mechanism. It would also make sense to have the EU represented in the EBRD governance by a single representative at the EU level as a full member, rather than by the 27 member countries (that could well participate however as observers). The EBRD would then become a fully-fledged Pan-European Development Bank, whereas the financing extra EU and extra EBRD would go to a dedicated entity, a European Agency for Development Cooperation, established possibly as a subsidiary of the EIB. So, the discussion on the Euro-Mediterranean Development Bank is well alive and kicking, as the MC demanded and preconized.

Finally, the third main suggestion of the MC, that of launching a “Recovery Fund” or a Marshall Plan for the Euro-Mediterranean, has emerged in the last few years here and there, without however leading to concrete achievements. But I believe that in the time of the pandemic crisis this idea acquires a special significance, force, and sense of urgency. This is the time for the EU to show concretely solidarity vision and courage. This is the time for a “Euro-Mediterranean and Pan-European Recovery Fund”. It would mark a meaningful parallelism between the internal EU response that has no precedent in terms of innovation and vision (the “Next Generation EU”) and the generosity and openness of the EU vis-à-vis its European brothers in the Pan-European and Euro-Mediterranean space.

We wish then to apply the insights provided by the excellent Triffin International Foundation papers in discussing African integration, to the Euro-Mediterranean perspective, or even to South-Eastern Europe and the whole Pan-European space. Clearly, those insights become in the latter perspective even more forceful and stringent. The question of some kind of Euro-Mediterranean “monetary system” and “development bank” should be discussed and put at the top of the policy agenda.

### 13. PUBLIC DEVELOPMENT BANKS AND PRIVATE BANKING INSURANCE AND CAPITAL MARKETS

Public Development Banks (PDB) are back in fashion. Their role has been revamped in response to the financial crisis and the pandemic. This is not surprising as both crises have highlighted the need for strong public intervention in relation to systemic shocks of extraordinary nature and the inability of markets on their own to respond and adjust.

The economic literature (see Savoy et alii, Griffith-Jones and Ocampo) has clearly analysed the reasons why and how PDB perform their useful function. Market imperfections require corrective action by public policy, and the range of market imperfection affecting the operation of financial markets have been conspicuously shown by the dramatic events of 2007-9. Financial markets have an inherent tendency to behave procyclically, over-lending in boom times and rationing credit during and after crises. Underinvestment in long term projects, like infrastructure, renewable energy or energy efficiency is another feature of private markets that needs to be addressed. Similarly, it can be argued with respect to high-risk investment and innovative projects or skill formation or social infrastructure.
Needed to say, market failures must be weighed against Government failures. Government intervention may distort market allocation of precious resources producing inefficiency. It can crowd out private investment and force through unrealistic political or “ideological” objectives or introduce forms of protectionism justified by patriotic or “strategic reasons” (a concept that in the mind of politicians is quite elastic and can be expanded at will).

In practice therefore in approaching PDB there are trade-offs and practical aspects that we must consider in order to strike the right balance between private markets and public institutions, and above all establish the right kind of relationship between the two.

In the liberal world order of the post-war period, public banks were looked upon with suspicion. They were considered to be part of the mechanisms of “financial repression” that penalized savings and fomented the accumulation of public debt and inflation in the 1960’s and 1970’s. This argument played an important role in the process that led to the financial reforms and liberalizations of the 1980’s. Alternative theories emphasized the endemic nature of financial market failures caused by information asymmetries (see Stiglitz 1994) and therefore gave PDB a central role for making the market more balanced and efficient. Not only PDB contribute – it was argued – to the “visible hand” of public policy, but they promote an enabling environment for crowding-in private investment and create a diversified eco-system where all banks, small and big, public and private, have a useful task. Finally, PDB can promote and support market reforms, the correction of market imperfections, the development of integrated and open banking and financial markets. They are not, and should not be, an alternative to reform.

This positive view is now-a-day prevailing in the development literature, in relation to the experience of developing countries. This literature pointed out the emergence of a new trend in the development finance architecture (see Savoy et alii). “As foreign direct investment, private lending and domestic resource mobilization continue to grow, donor countries are seeking to leverage the instruments and capabilities provided by public finance institutions to maximize their development impact (ibid., p. 7)”. A similar approach in a different context we find looking at the philosophy of the so-called Juncker Plan (JP) of the EU, i.e. the Investment Plan for Europe of the European Commission, now renamed into the InvestEU Programme: the idea is that public EU money, and expertise, should be used to mobilize private investment, financial market development and innovation. It is important to remark that the JP saw the involvement of the private sector as an essential component of the Plan. For this reason, the JP was framed and designed as a complement and an integral part of the flagship EU goal of Capital Markets Union, an ambitious programme of financial reform aimed at fully integrating markets across-border and at diversifying sources of funding from bank’s credit to equity, institutional investors and capital markets.

The ambivalent nature however of PDB should be always kept in mind: they can be either agents of financial market reform and modernization, or instruments of “State capitalism”, a model that has regained prominence thanks to illiberal strands in the world economy and the collateral damage of the pandemic. This double nature is
quite relevant when we deal with the Pan-European region, rather than the developing countries. For this region, the prospect of the cross-border integration of banking and capital market and the need to develop strong local financial ecosystems appears realistic, necessary and particularly promising.

If we compare different models of PDB, we can say that international PDB, when they have in their mission a programme of financial liberalization and cross border development, work relatively well. Also, PDB operate in a favourable climate when they aim at making the financial market work, correct market imperfections, develop diverse sources of funding, alternative investment, institutional investors, and promote financial innovation. There are more risks with national PDB, which may fall prey of intrusive Governments looking for ways of controlling the market, bending it to their political purposes and “strategic” objectives. In that context, the independence of management and the involvement of the private sector are key aspects. Better if the market players have control, and the Government retains only a minority share, like in the German Fraunhofer model of public private companies.

This discussion has relevant implications for the Euro-Mediterranean or Pan-European Development Bank. In the light of the considerations above, a reformed EBRD looks to me the best approximation to the kind of PDB that is needed for the Pan-European space. But it should be accompanied by bold reforms of this institution. In particular, the EBRD should strengthen its private market orientation, and correspondently weaken its intergovernmental nature. This could be achieved by opening up its capital to private contributions, so that financial players have skin the game.

In November 2020, the French Government convened in Paris the first world summit of Development Banks, emphatically called the “Finance in Common Summit” (see Finance in Common Joint Declaration). Sustained by great ambitions, such as the revitalization of multilateralism and the rebuilding of the international financial architecture, more than 450 PDB were represented at the Summit. Together they account for more than 15% of world investment, more than $2 trillion a year. In their Joint Declaration, PDB committed to support the transformation of the global economy and societies towards sustainable and resilient development, which – they claim – “requires a framework for SDG-compatible finance”. They also committed to collaborate internationally, share best practises, and implement the “Core Standards”, as defined by the 2018 Report of the G20 Eminent Persons Group on “Global Financial Governance”. The “Finance in Common Summit” has achieved to build an alliance of PDB of different types around the world, which not only gave evidence to the widespread re-gained recognition of the role that such banks can have, but also through peer pressure and sharing of best practises should lead to assess both risks and opportunities and identify the critical features that make PDB a factor of financial market integration and reform. I trust that this will imply to emphasize the determining role that private players and the market mechanism play in financial development, and the significant help that PDB can provide to strengthen and make markets more open deeper and more transparent. I also hope that in the new euphoria that globally PDB have recently created, the political programs and reforms for integrating and liberalizing financial markets at the cross-country level, an in partic-
ular for re-launching the Pan-European vision of integration and development of banking insurance and capital markets, will be put back at the top of the policy agenda.

14. CONCLUSIONS

What are the main points of conclusion we can draw from the previous discussions?

Three ideas in my view stand out as the practical next steps, which should be set in motion immediately:

1. **A Pan-European Post-Covid Recovery Fund** should be launched by the EU as a gesture of solidarity at this critical juncture and support for urgent growth – and integration-enhancing reforms needed in the Pan-European region. Drawing on the parallelism with the NGEU, the programme could be named “Next Generation Europe”. Intervening now has a double advantage: it gives a strong signal to the peoples and public opinions of the region that Europe is not a distant and reticent entity, but rather a community capable of empathy and idealistic motivation. Besides, such an effort, and its budgetary implications, would appear fully justified in the eyes of the EU population, because it is an extraordinary and temporary measure that responds to a dramatic shock that cannot be attributed to the responsibility of individual countries and has hit more hardily the most vulnerable communities.

2. **The EBRD should strengthen and make more organic its links with the Union for the Mediterranean (UfM) and its member countries.** It should be perceived more as the reference Bank for the UfM. The EBRD shareholders should issue a strong political statement to declare that the Bank has its doors open for access to the UfM members that are not yet EBRD members (such as Lebanon, Algeria, Mauritania, etc.) and that qualify for membership (criteria would have to be set in a transparent way, not subject to political manipulation). At the moment, there are already six Mediterranean countries that have joined (Egypt, Israel, Jordan, Morocco, Tunisia, Turkey). The fact that EBRD is located in the City of London should not be perceived as a liability in the frustration climate generated by Brexit. On the contrary, London remains an important financial centre of the Pan-European region and hopefully also the British authorities will eventually wake up to this unavoidable reality.

3. **The bilateral and multilateral dialogue between the financial communities of the Pan-European region, including South Eastern Europe and the Euro-Mediterranean, and those of the EU should continue and intensify.** The Italian financial community, represented by FeBAF, is strongly committed to this process and intends to pair up with other Mediterranean EU communities, in particular the Spanish one, in upholding the values of the Barcelona process and take a leadership role. Such dialogue should aim at improving reciprocal knowledge, promoting partnerships and explore all opportunities for more cross border relationships and activities and for integrating banking insurance and capital markets. In such a dialogue clearly the Euro-Mediterranean lags behind Eastern Europe: for instance, we miss in the Mediterranean something similar to the so called “Vienna Initiative” for
Eastern Europe. This forum was set up in 2009 after the financial crisis by banks, international institutions, Governments and other stakeholders to promote cooperation, ensure that large banks commit to maintaining exposure to subsidiaries and recapitalize them, strengthen cross-border regulatory cooperation, and more broadly enhance dialogue. The Initiative has been considered a success, because of its impact on mitigating the crisis and minimizing financial distress in the target region. Something similar should be established also for the Euro-Mediterranean. The dialogue there among the Central Banks, which started in 2004, looks very promising; it should be continued and strengthened, providing support also for the involvement of private players.

Other ideas need a longer-term perspective, more careful gestation and bolder visions. For their nature and importance, they should feature prominently in the Conference on the Future of Europe that the Von-der-Leyen Commission has planned and committed to. Among them, I wish to mention the following three:

1. **The accession process should be unblocked.** For all the countries of the Pan-European region, including the Euro-Mediterranean, that qualify. This implies first and foremost doing away with all internal EU political resistance and propaganda that is motivated by sheer prejudice, political opportunism, and anti-enlargement rhetoric. Enough with the enlargement fatigue! Making the enlargement the scapegoat of all what does not work in the EU has been an exercise of irresponsible leadership and has paved the way to an escalation of anti-immigration fanatism and ultimately anti-European radicalism. We have in this paper endorsed the suggestion made in a Bruegel Paper of a two-step accession mechanism (see Cameron and Leigh). We had suggested in a previous paper (see Garonna 2020) the establishment of an outer circle of Pan-European integration (Wider Europe). Whatever mechanism is chosen, opening to accession of all possible candidate countries, provided reasonable conditions are met, should not be a taboo anymore. This runs deeply into the interests of the NGEU.

2. **The creation of a “Pan-European Monetary System” an a “Payment Union” is a fundamental component of the Pan-European integration process.** The insights and suggestions provided by the International Triffin Foundation (see Flor, and De Rambures) are of paramount importance and should be further developed. This in my view forms part of the necessary strengthening of the international role of the Euro, and its taking responsibility not only for the EU, but also for the whole of the Pan-European region, and possibly beyond. This is a pre-condition for creating or re-creating a more balanced and cooperative global financial system (including the role of the SDRs). Europe, and the Euro, as global players (if they manage to become that) have an historic mission to accomplish.

3. Finally, **opening up the capital of EBRD to private players** would give a strong signal of what is required for Pan-European integration of the financial sector. It is not (or not only) a question of leveraging private market resources and unleashing the potential for sustainable financial development and investment. The general principle that should be brought home is that it is the market and the private sec-
tor that should have the leading role in financial integration and investment and take the driving seat.

In his excellent book, Fathallah Sijilmassi, former Secretary General of the UfM, reviews and comments on his experience at the helm of the fledgling organization. His conclusion, that stands in the title of the book, is that “l’avenir de l’Europe est au Sud”. Provided that South here is intended to include also South Eastern Europe, and the whole of Eastern Europe, we strongly endorse such a statement. The future of Europe is in the South.

“The Mediterranean [and Eastern Europe] cannot continue to be represented as the cemetery for the illegal immigrants. It is one of the most beautiful regions of the world. It is not by accident that it is the first tourist destination of the world with 350 million visitors a year, one third of global tourism. … It is a 800 million community, with a great majority of young people among them, sharing a common space and a common reality (Sijilmassi, p. 8)”.

Rome, February 2021

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CHAPTER I
INVESTING IN THE PAN-EUROPEAN ECONOMY:
THE NEW GEO-POLITICAL CONTEXT
The contribution makes a brief outlook of the global economic and geopolitical situation, with a focus on Eastern Europe, trying to sketch the most crucial issues for the near future. Moreover, it outlines the guidelines for a sustainable recovery driven by the private sector, concluding with the specific role of insurance.

I. A GLOBAL OUTLOOK

What we are witnessing is by far the largest economic slump since the Second World War. The need to protect citizens’ life has forced governments to freeze activity in large parts of the economy, creating an unprecedented level of disruption. The IMF estimates that world GDP will fall this year by at least 3.5%. As a comparison, in 2009 global activity barely contracted (-0.1%).

The virus has hit all the economies and the effects were magnified via trade and global supply chains.

In the US COVID-19 cases developed later than in Europe. The IMF expects the economy to contract by 6.5%, recovering only at the end of 2021.

In Europe, member countries were hit by the pandemics with different degrees of severity, depending also on the health measures put in place and the state of the national healthcare systems. The 7.5% GDP fall predicted by the European Commission for the EU as a rather large difference across countries.

Overall, the Northern European area has proven more resilient than the Southern one.

The response of the ECB and the European Commission has been timely and massive, I am sure that all countries will go beyond some different positions which still exist and understand that a strong mutual reconstruction effort is of essence for the survival of the EU project.

Focusing on Central and Eastern Europe, where Generali is active in more than 10 countries, we can say that the differences among them are higher than in the rest of Europe. Part of the economies are classified as advanced according to the IMF, al-

* Chairman, Assicurazioni Generali
ready exceeding some of the EU older members in terms of GDP per capita, like Czech Republic and Slovenia. Others have a longer way to go but their improvement was also impressive, like Serbia. Convergence of CEE towards the richer EU is anyway expected to continue.

In the context of COVID-19, Central and Eastern European countries proved very successful in containing the virus outbreak, but will inevitably suffer from the plunge in global economic activity. Their performance is expected to be in line with the EU average.

Russia requires specific observations. It is heavily exposed to oil and other commodities, although its vulnerability to oil prices swings has been substantially reduced over the past decade. Additionally, monetary policy has gained credibility and the ability of the central bank to achieve the 4% inflation target is unquestioned.

We come, then, to the last point of the global outlook: Emerging Economies. They were hit by a perfect storm of collapsing global trade and large outflows triggered by international investors while facing the pandemic with in many cases underdeveloped healthcare system. The poorest countries may turn up to be the biggest casualties of Covid-19 and any initiative to ease their pain, like the plans for debt relief, should be supported.

2. KEY ISSUES FOR THE FUTURE

Now, I want to move to the key issues for the near future.

After the health crisis is over and the economy has stabilized, we will be facing a “different world”, bringing with it some crucial questions.

First of all, the destiny of global trade. The Covid-19 experience proved that, while complex multinational supply chains promote efficiency and cost containment, they can become a burden in case of a global crisis. Moreover, the need by national government to have some control over strategic sectors like healthcare supplies has dramatically come to the fore.

This will not mean the end of globalisation, but surely multinational firms will rethink supply chains, in order to shorten and simplify them. This and the development of artificial intelligence will lead to the reshoring of some activities from Asia and other low-cost countries. A key question for Europe is then whether member countries are prepared to exploit this opportunity. Central European Countries may have an advantage given the impressive track record they showed in gaining a solid footprint in key global industries.

The COVID crisis will necessarily have an impact on the activity of the European Union. Fostering the recovery and making the economies more resilient to possible new global crises need a region-wide response, which should be supported and reinforced by the private sector, insurances and banks above all.

Currently, the discussion around the European Recovery Fund shows that mutual trust with a few countries has still to be consolidated. Bridging the gap requires
sometimes painful compromise by all member states, but it is a precondition to all other initiatives that are being discussed and planned, first of all, the much-needed Banking Union.

3. MEGATRENDS STILL IN THE AGENDA

Last but not least, the biggest issue is related to how to match the need to move to a greener economy with increasing public debts and the fact that low oil prices will make renewables less competitive.

4. ENGAGEMENT FOR CLIMATE IN THE EASTERN EUROPE

The transition to an economy with a low environmental impact implies in many countries a complex transformation, as it will involve around 1.5 billion workers throughout the world. This is the case of Eastern European countries, where Generali supports a “fair” transition for workers and communities. This is pursued through an investment and underwriting strategy which involves the main stakeholders potentially interested.

So far, the engagement process activated by Generali, has been directed to 8 coal-related companies in countries with a share of coal in the national power mix that exceeds 45%. In making the decision whether to continue or terminate – as we did in two cases – insurance contracts with the companies involved, we consider green criteria and concrete plans for the switch to alternative energy sources, to be monitored every two years.

5. EUROPE’S GREEN RECOVERY

The coronavirus emergency is forcing us to learn important lessons and to do more. The issue of climate change is strategic now more than ever before.

This is the scope of the Green Recovery alliance, recently subscribed by Generali and other 200 companies at European level. The initiative has been launched by the European Parliament to revive the economy through sustainable investments.

Signing this alliance is a natural step for Generali as we have adopted, since few years, an integrated approach to ESG issues in line with the Purpose of our Group – which is ”to help people to shape a safer future by caring for their life and dreams”.

6. THE ROLE OF INSURANCE

My last comment on this keynote speech is on the role of Insurance, with a particular focus on Eastern European Countries.

In Eastern Europe, the importance of insurance for economic growth and development is high, especially in the field of infrastructures, which improved dramatically in recent years and still remain a priority for public investments.

Insurance activities, whose solvency ratio is showing strong levels of resilience, are having an impact on both economy and capital markets but also on society as a
whole. Insurance provides risk sharing and prevention of losses, which is helpful for economic subjects and the economy. Insurance companies also have expertise in investing premiums in long term assets, which in turn helps to develop capital markets in the region.

In particular, the role of pension insurance has been increasing also due to the ageing population. The “peace of mind” that insurance provides cannot be measured, unlike assets under management and insurers’ contribution to GDP. Gross written premiums represented around 3% of GDP in CEE region at end-2018 and assets under management of the CEE insurance companies ranged between a few percent of GDP in most of CEE and up to 15% in Slovenia. This is still below the European average of 7.5% in case of premiums and almost 60% of GDP in case of assets under management.

7. PROFITABLE GROWTH IN THE REGION

In recent years, the Generali Group went through a major strategic reorganisation within the CEE region designated as a growth driver and a core investment market. This strategy is delivered through three key pillars:
- Profitable Growth through internal business development, disciplined M&A activity and expansion of the asset management as a complement to the life insurance offer for retail clients. The acquisition of Adriatic Slovenia in Slovenia and Concordia and Union Investment in Poland are clear examples.
- Capital Management and Debt Reduction, whose target has already been achieved at the end of last year.
- Digital transformation to improve customer experience through advanced and integrated solutions. This fully digital and holistic approach is a distinctive competitive advantage for the Group and for this reason all transformational initiatives are driven from the centre to the regional level to ensure cross border cooperation and to fully exploit the potential of synergies across geographies.

8. CONCLUSION

Going to the conclusion, the new world we will have in front of us at the end of the emergency will require financial institutions to answer new challenges, new paradigms relating to the protection of people and the management of savings.

To answer it, I think it is necessary, as Generali has been doing for years, to invest in two directions: digital technologies and cybersecurity which are increasingly becoming a key to guarantee protection to the asset, productive activities and people, their privacy and savings; and we should continue to invest in sustainability, by applying and strengthening governance systems to support responsible businesses, which aims at excellence in all its processes, focused on the major issues of our time, to contribute to a fairer society.
Today, like never before, we have a huge responsibility in being able to shape the world for future generations, putting our business to the service of man and the quality of human life.
Investing in the Pan-European Economy

ROBERTO ANTONIONE*

When the EU high representative said that the Covid-19 could have an impact on geopolitics at the global level, was making a clear point. He underlined that the pandemic would even reshape our world, in particular he referred to a struggle for influence probably hinting at China’s aggressive mass diplomacy to consolidate its presence in Europe.

Regardless, I would be careful about speaking of a new geopolitical scenario after the pandemic shock. I would rather say that instead of creating a new scenario the Coronavirus pandemic is exacerbating existing geopolitical trends on which the growing US-China competition is the most pressing.

Therefore, if we want to understand post pandemic geopolitics in Central Eastern, South Eastern Europe, the CEI area, we shall broaden our view and look at what is happening globally.

The two superpowers are engaging in a battle of narratives or, more properly, in a disinformation war to influence international public opinion about the responsibility for the spread of the Covid-19. In parallel they are competing to become the first country to develop a vaccine which would bring about consequent geopolitical benefits.

The US-China confrontation intensified by the global pandemic is highlighting two additional aspects that cannot be ignored. On the one hand, the shift in the economic balance of power from West to East with China likely to rise from the crisis as a bigger global player according to several analysts; on the other, weakness of multilateralism and the related lack of global leadership. Rather than promoting international cooperation, which is even more crucial today, multilateral institutions are becoming battlegrounds where conflicts between superpowers are preventing the design of concerted responses.

* Secretary General, Central European Initiative – CEI
Trump’s America First policy and his fragrant disapproval of multilateral institutions such as WHO are leaving a leadership void that China is trying to feel by projecting images of supporters of internationalism but the question is: what about Europe? Is there a place for the EU in this geopolitical context?

Our concern about an increasing influence of China is undoubtedly strong, in particular with regards to the CEI area. It is not by chance that on the 25th of March the European Commission issued a communication to the member states on the protection of Europe strategic assets warning against foreign direct investments from third countries.

Before the pandemic, reaching a joint EU position towards China was difficult, especially after the establishment of the 17+1 group. Against this background, the health crisis and its socio-economic consequences can represent an opportunity for China which can seek to expand its influence in Europe through the provision of funds for the economic recovery.

This aspect is of particular importance for two sub-regions encompassing the broader CEI membership, namely the Central Europe countries of the so called Visegrád block and the Western Balkans.

By looking at Visegrád we cannot but notice once again that Covid-19 is acting as an accelerant of existing geopolitical trends. Here the perception of the fast Chinese support addressing the low and uncoordinated EU response has fed to Euro scepticism of leaders such as Viktor Orban in Hungary or Miloš Zeman in Czech Republic. These can certainly stimulate and hence nationalism underpinned by a stronger belief in the legitimacy of an autonomous foreign policy action; also in the Balkans, whose integration process in the EU represents one of the main political priorities of the CEI, governments have instead a pro-China narrative.

The EU promptly reacted by approving 3.3 billion aid package, officially announced at the recent EU-Western Balkans summit under the Croatian EU presidency.

In addition to reaffirming the EU unequivocal support for European perspective of the Western Balkans the adoption of Zagreb Declaration should make it clear that this support and cooperation goes far beyond and any other partners has provided. Hopefully this would give new momentum to the later process in the Western Balkans, following the important step of opening accession negotiation with Albania and North Macedonia.

Indeed, influence from third countries through either a strategic investment on online disinformation campaigns and cyber-attacks is to be monitored in order to avoid any risk of destabilisation and this is true not only for a global actor like China but also for assertive regional players such as Russia and Turkey.

Concluding this brief overview, I would like to underline that also the CEI members states have been and will be confronted with a strategic choice between nationalist
isolation and global solidarity, as the historian Yuval Harari has putted in a recent article in The Financial Times. In my capacity, as CEI Secretary General, it’s easy to figure out which my position is vis à vis this choice.

Therefore, we have rushed to make our contribution to international cooperation and regional solidarity by promoting free interlinked initiatives in response to Covid-19.

Firstly, we have set up a CEI-WHO taskforce to foster policy dialogue data exchange and coordination among our governments where we act as policy coordinators and the WHO regional office for Europe, provides scientific advices. Secondly, we organized on 15th of May a virtual summit of the CEI prime ministers in cooperation with the current Montenegrin CEI presidency. The unanimously adoption of a joint statement on solidarity and cooperation, lease the group for coordinated actions with regards to the health emergency and to the socioeconomic recovery. Thirdly, in order to complement this top-down intergovernmental approach with a bottom-up action we launched an extraordinary call for proposals which recorded an impressive reaction from our countries with about seven thousand applications submitted, eventually around 20 projects will be funded, they will represent interesting pilot actions on topics such as telemedicine, distance learning, digitalisation and smart-working.

These were just initial actions to encourage and immediate response based on cooperation and trust between and among our member states.

I am aware of the fact that much still needs to be done to transform the global crisis into an opportunity, for strengthening international relations both within the EU and between the EU and its closer neighbours. The CEI is ready to play its part.
We Can’t Afford to Sleepwalk.
The Post COVID-19 Policy Response

ENZO QUATTROCIOCCHE*

We witnessed financial crises before, but the COVID-19 pandemic has made us all observers to the unfolding of an unprecedented set of economic consequences.

The current crisis – differently from the previous ones which were mainly of financial nature – is relatively unique insofar, as it is totally exogenous and unexpected. That means that, while the size of various financial assistance packages matters, the speed of delivery matters more.

The task is further complicated by the fact that we currently have to make brave assumptions in projecting the level of ultimate contraction of economic growth, since much of this is also dependent on a series of unknown variables such as vaccine availability, the ultimate impact on government budgets, and modelling trends in the rate of infection.

Whilst some national responses to the COVID-19 pandemic have come in for criticism, it is key to recognise that the post-crisis rebuilding-phase will require a co-ordinated and timely national, regional and global response. Indeed, without it, the impact on the global economy will be far severe and long lasting. Moreover, it has never happened in the living memory to have Governments worldwide required to intervene on such a scale, and never has the international policy environment been more profoundly impacted. A major input into this mix is the need to mobilise capital on a scale we have not previously seen, and from a much broader array of sources.

I. EARLY GEOPOLITICAL TRENDS

 Whilst it is too early to predict with great certainty the impact of the crisis on geopolitics, some trends affecting the regions in which we operate can already be discerned.

 Nation states are making a come-back as the predominant political structure, whilst international regimes, institutions and multilateralism are under strain at best and weakened at worst. This trend was undoubtedly in train prior to the pandemic, but the unique circumstances of the current situation have accelerated it.

* Secretary General, EBRD
Greater emphasis on national resilience and aversion to dependency on imports of sensitive goods and on long supply chains could result in a slowing (and partly in a reversal) of globalisation.

The health emergency has strengthened current leaderships in most countries. This is unlikely to continue, if the economic downturn is severe. As a consequence, the stability of several already stressed states could be under threat.

Massive falls in the oil price have weakened a number of regional powers such as Iran and Saudi Arabia, whose influence rests on their income from energy exports. Whether this continues in the recovery phase and what the impact of cheap energy will be on the push towards cleaner forms of energy remains to be seen.

2. RAMIFICATIONS FOR SOUTH EASTERN EUROPE

Looking at the South-Eastern Europe (SEE) region, output contractions from this crisis are greater in magnitude than those witnessed in the Global Financial Crisis and, might, potentially longer lasting. In the case of Greece, for instance, projections by the Government suggest the economy could contract by over 10% over the next year and other countries within the region can expect similar contractions.

Another crisis of recent years that might parallel this level of contraction is the Asian Crisis in 1997, where output contractions were severe, but the strength of the policy response ensured that these were both temporary and largely regional.

The risk that the economies of SEE may not reactivate overnight is dependent on several factors:
- Their major export market for the region is the EU, and their rate of recovery has been historically slower to activate;
- Remittance flow to the region has been significantly restricted and could get worse with the tendency of some European jurisdictions to restrict economic migration. In the medium term, the need to repair household finances can act as a catalyst for a renewed migratory push and a skill drain from the region;
- The supply side of the economy has been damaged, including people’s chances to go back to work. There is no guarantee that many of them will return to the same jobs. While the contraction of the workforce was savage in the early stages of the pandemic, it takes longer to hire new staff than it does to fire old staff – a trend that is relevant in both SEE and EU countries as growth requires a return of consumer demand and confidence;
- Households will need to rebuild financial buffers, and this equally applies not only in the region but also with the region’s major trading partner, namely Western Europe. Consumer confidence has been battered, but – more significantly, the confidence to undertake longer-term financial commitments such as mortgages is also impacted.
3. FINANCING THE REBUILDING AND RECOVERY

The contemporary financial scenario makes it clear that there will be defaults, bankruptcies and restructurings. The nature of emergency and ongoing assistance will also place significant pressures on government budgets. Governments will need to borrow more and potentially taxes may need to be raised in the medium term to pay for the reconstruction.

It is evident that there are going to be fundamental challenges on how the recovery from this crisis can be funded. Here some examples.

Financing through traditional channels such as the banking system is critical, but it is not enough. This clearer in South Eastern Europe, where the financial system is 90% bank dominated (compared to the EU at 75% and the US at less than 50%). As banks build their capital buffers in light of new regulations, their ability to provide longer-term funds will also diminish.

More pools of long-term savings need to be deployed for rebuilding longer term infrastructure products and the ultimate instruments for deployment are the capital markets.

There is a tendency of governments to look to nationalise funded Pillar II pension schemes. Whilst this appears fiscally appealing in the short term, the risk of long-term damage to the financial system and negative impact on financial stability is huge. In this scenario, the region will only become more dependent on an over-stretched banking system and on volatile foreign investment flows and heightened currency vulnerability. As Asia learnt in the 1997 crisis aftermath, mobilising domestic funds in the region’s economy through the expansion of domestic capital markets goes a long way to mitigating this risk.

Municipal infrastructure is one of the vulnerable sectors, which require the provision and availability of longer-term debt. As first responders in the crisis, their costs have escalated, and their revenue capture has diminished. Generally, the sector will be unlikely to be able to rely on Central Government bailouts because that source of finance is also stressed. This means that funds mobilised by the insurance and contractual savings sectors (such as pension funds) are critical to the recovery.

To ensure that capital can be efficiently mobilised, payment systems and exchange controls need to be recalibrated to encourage inflow and reduce currency vulnerability. This does not mean micromanagement of the exchange rate, but more an expansion in the development of basic hedging products such as FX and interest rate swaps.

Some form of deal enhancement such as first loss guarantees – from governments and IFIs – will be needed to make early projects attractive. The key is to mobilize private finance quickly in the sectors that need rebuilding but at the same time not to crowd out private investment.

Some of the region’s financing requirements are temporary. Thus, short term financing is also critical to the recovery phase. Trade finance and security-based instruments – such as commercial paper – facilities might fill this gap and are being assessed in Eastern Europe and SEE Markets (Romania, the Baltics, and Hungary).
This can take some strain away from banks as pension funds are presently running long cash and have previously shown willingness to invest in these instruments in other regions.

Overall, even though it is not a rosy picture the one depicted so far, there is always much to learn from a crisis. Indeed, there are several potential positives for the region that we should leverage upon.

The region’s growth rate has a history of outperformance when compared to Western Europe – the incentive of global retooling away from single sources of products, such as China, may actually work in the region’s favour.

The region has shown itself to be resilient in the face of previous upheavals. Crisis rebuilding is often the catalyst for significant financial sector reform. The best example is the major development of local currency capital markets in Asia in the aftermath of the 1997 Crisis. Efforts to develop the capital markets are now more critical than they were previously – singular reliance on the banking sector increases the risk of financing blockages.

There is grant financing available for financial sector reform and LCY first loss facilities from the EU and other donors. International financial institutions (IFIs) are looking at ways to increase their LCY lending operations but they need a functioning local capital market to make it happen more effectively and to ensure that other investors “follow us in”.

Interests rates are lower than they have been during other crises (and much lower in the region compared to 2008), thus the interest costs from taking on new debt is potentially lower. The challenge is to get cash to critical sectors such as tourism and SME

4. THE ROLE OF THE IFI COMMUNITY AND THE WAY FORWARD

IFIs are showing committed to assisting the region. Indeed, multilateral institutions were established, at first, for these kinds of crises. They cover different tasks as to invest where others will not; to be counter-cyclical; to provide a bulwark against economic – and possibly even political – collapse.

IFIs such as the European Bank for Reconstruction and Development (EBRD) have already taken steps to escalate their crisis response. As the economic and social impacts of the pandemic magnified, IFIs introduced first level response programmes aimed at: a) strengthening health infrastructure; b) supporting viable businesses; c) assisting financially vulnerable households; and d) offering budgetary support.

The second level response is the redeployment of lending and technical cooperation projects in 2020 and 2021 toward the crisis and, more importantly, putting in place the foundations of the eventual recovery. The 10 largest IFIs have committed $300 billion, not necessarily/entirely new financing but putting emphasis on fast track facilities (like the EBRD Solidarity Package) and guarantee funds.

To this end, EBRD has designed, agreed, and already delivering an evolving and dynamic 4 billion Euro “Solidarity Package”, which should provide the operational
framework and the leverage for the Bank to invest an ambitious 21 billion Euro in 2020 and 2021.

In terms of facing the emergency, the EBRD will focus on mobilising maximal capital to vulnerable sectors, notably:

The financial sector, where, among other things, it shall contribute to meet the strong demand for risk sharing products; it shall help answering the cry for help to support and revive trade via our Trade Facilitation Programme; and, it shall develop new capital market products, besides providing credit lines to local banks.

The SME sector, by providing first loss risk cover for on lending to SMEs under credit lines and guarantees on portfolios of loans.

Tourism and agribusiness where short term financing instruments such as commercial paper programs may assist filling the gaps between costs and revenues.

Medical supplies, by financing companies that produce medical products and by supporting imports and exports of healthcare products through Trade Facilitation Programmes.

The crisis has sharply brought into focus many of the challenges that already exist. Yet, there may also be new opportunities. Beyond the immediate crisis response, work on recovery and addressing the long-term fundamentals of building a sustainable market economy must continue.

The EBRD is determined to play its role in the recovery phase, mainly focusing on supporting the transition to a low carbon economy and promoting equality of opportunity while accelerating the digital economy.

Maintaining our focus on the green transition has to remain a core priority. We already reflect this continued “tilt to Green” in our Solidarity Package, and we will continue to do so in the upcoming preparation of our new Green Economy Transition approach for the period 2021 to 2025. We are also continuing our work on Greening the Financial Sector in the Baltics, Greece, Hungary and Poland, by creating a more flexible capital market and encouraging greater issuance of green instruments.

The crisis has also shown that promoting equality of opportunity is critical. Over the medium-term, the Bank has the potential to further develop its toolkit and its activities to respond to the particular vulnerabilities of women, youth and migrants in the crisis.

The importance of the digital economy – during and due to the crisis – has "leapfrogged" several stages, whose completion would have taken much longer in normal circumstances. Accelerating its development in countries of operation is of heightened importance.

The composition of the global business will change in response to this crisis. The EBRD will remain an active partner of states under stress, and we will build focused, joint responses with our partner IFIs, and notably with the EU, the European Investment Bank (EIB) and other European Development Finance Institutions.

Solidarity must be a meaningful word. By fulfilling our mandate through the difficult times ahead, the EBRD seeks to express real, tangible solidarity with its countries of operation. We can secure and defend the qualities of well-functioning markets that, in time, will contribute to a sustainable recovery.
During the first part of my contribution, I would like to provide a brief overview of specifically how CV 19 has impacted various pan-European capital markets, some brief thoughts on CV 19-related “Quick Fix” primary and secondary markets legislation under discussion, as well as how CV 19 has made the recently-issued CMU High Level Forum report even more relevant than ever. Although it seems like ages ago, the negative impact of CV 19 on European markets was very swift. In the space of ten days starting on 6 March, liquidity was seizing up rapidly to the point it was difficult for issuers to get any new transactions completed in any asset class. The interventions by the Bank of England on 11 March, by the ECB on 12 March and concurrent action by the Federal Reserve had an enormous positive impact on market liquidity and secondary market spreads on those asset classes eligible for purchase by the central banks. The securities purchased by central banks included bonds issued by sovereigns, supranational and large corporates, but notably not securitisations, nor more credit-intensive instruments such as high yield and leveraged finance. It is notable that the European equities markets have benefited from a halo effect of these central bank initiatives, even though equities are not an eligible asset class in almost all major jurisdictions. The provision of liquidity however by bank secondary market desks was significantly higher than during the global financial crisis ten years ago. European banks have improved the quality of their capital and are well positioned from a solvency and liquidity perspective to support households and businesses.

In April, AFME published a comprehensive review of the initial impact of CV 19 on markets, which we intend to update in the next few weeks. Some of our initial observations were: a) The central bank liquidity resulted in the largest ever weekly investment grade bond issuance in Europe, of over EUR 50 bn, including from non-financial corporates. b) In fixed income markets, spreads vs benchmarks increased significantly across all credit asset classes. Although most spreads subsequently declined, they have not declined to pre-CV 19 levels. In addition, bid/offer spreads widened, in some cases considerably depending on the asset class. c) In equities, although primary offerings declined significantly, quite a few corporates were able to place secondary offerings.
In terms of trading volumes, activity in the first quarter increased in comparison to Q4 2019:

<table>
<thead>
<tr>
<th>TRADING</th>
<th>1Q 2020</th>
<th>4Q 2019</th>
<th>%CHG (LATEST)</th>
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<tbody>
<tr>
<td>Equity (ADV in EUR bn)</td>
<td>60.9</td>
<td>42.5</td>
<td>14.7%</td>
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<tr>
<td>Corporate (ADV in EUR bn)</td>
<td>73.9</td>
<td>54.8</td>
<td>34.9%</td>
</tr>
<tr>
<td>Sovereign debt (ADV in EUR bn)</td>
<td>79.1</td>
<td>62.9</td>
<td>25.8%</td>
</tr>
<tr>
<td>FX (thousand weekly contracts)</td>
<td>67.6</td>
<td>47.4</td>
<td>42.6%</td>
</tr>
<tr>
<td>Fixed income swaps (cleared trades)</td>
<td>32.6</td>
<td>23.3</td>
<td>39.9%</td>
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</table>

Not surprisingly, fixed income secondary markets spreads increased significantly:

<table>
<thead>
<tr>
<th>SPREADS CORPORATE</th>
<th>3-JUN</th>
<th>31-MAR</th>
<th>1-JAN</th>
<th>BPS CHG</th>
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<tbody>
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We also note the widening of fixed income bid-offer spreads, as illustrated in the below graph which tracks the difference between closing bid price and closing offer price on selected 5Y benchmark government bonds in key Eurozone markets.

![Graph showing fixed income bid-offer spreads]

I. EQUITIES

- The secondary equity offerings market has been relatively active on European exchanges. Secondary offerings worth €25.6bn have been issued from the beginning of 2020 until 3 June above the €17.2bn issued in the same period in 2019.
- Equity average daily volume traded on European MTFs and exchanges increased 94% YoY in March 2020 to €84.9bn per day when market turnover peaked (vs. €43.8bn in March 2019). Average daily volume in early June stood at €50.4bn per day.
- Declines of share prices of blue-chip index constituent companies varied across countries with YtD declines of between 11-26% as of mid-April, which most recently have partially recovered with year-to-date losses of 6-20% as of early June. Company valuations significantly declined over the year as result of the sudden change in the economic outlook and the uncertainty around the medium and long-term financial repercussions of the crisis for the corporate sector.
- Market volatility of European equity shares rapidly increased to levels seen during the 2008-2009 financial crisis. European market-implied volatility of equity shares increased from 11bps in early January to a maximum of 86bps by mid-March, that later stabilised close to 30bps in early June’.

2. GOVERNMENT BONDS

COVID-19 crisis has increased the price volatility and risk premia of European sovereign bond markets. For sovereign yield curves, the effect of COVID-19 on the market can be observed in the steepening of the Italian curve, and the downwards shift observed for the UK sovereign markets.
3. CORPORATE BONDS

- Investment grade (IG) borrowers raised a record amount of corporate debt from markets during the crisis; from 1 March to early-June, the IG bond issuance totalled €214bn that is a 123% increase to the same period in 2019.
- First week of April 2020 totalled €56bn, which is an all-time weekly record, and even more remarkable taken that large part of the financial sector workforce worked from home.
- The rapid increase in IG bond issuance contrasts with the subdued performance of the high yield and leveraged finance markets as investors price in potential credit losses of low-rated corporate debt.
- Between 1 March and early June, a total of €7.7bn in high yield debt has been issued in Europe, a 71% decline compared to the same period of 2019.
- Leveraged loan issuance has also declined during the COVID-19 crisis as markets continue to reflect concerns about credit quality and highly leveraged companies.

4. SECURITISATION

There has been a notable decrease in the number of public deals for which there have been STS notifications, with only 19 public deals in Q1 2020, compared to 56 in Q4 2019.

5. ECONOMIC IMPLICATIONS, AND OFFICIAL SECTOR INTERVENTIONS

The impact in the Balkan region is significant: In Croatia, 290,000 people applied for unemployment benefit during March and April. In Serbia: around 12 per cent of workers in Serbia had lost their jobs. In North Macedonia, unemployment is at 17% with 9,000 new unemployment registrations during the crisis.

In terms of EU-wide measures, officials have:
- Postponed go-live dates of certain markets regulation.
- Postponed of certain deadlines for regulatory responses.
- Proposed a “Quick Fix” package of changes to primary and secondary regulations.
- Market Abuse Regulation, Prospectus Regulation, and MiFID.
- ECB allowed banks to operate temporarily below the level of capital of Pillar 2 guidance, the capital conservation buffer and the LCR.
- Banks dividend payments postponed as requested by the ECB and the BoE – Basel III implementation postponed by one year.
- Some national market regulators issued short selling bans during the COVID-19 crisis with the intention to stabilise financial markets.
- Some European countries have temporarily changed corporate insolvency filing obligations and/or enforcement of debts for companies hit by the crisis.
- UK’s Pre-Emption Group (PEG) relaxed the guidelines that UK listed companies...
may issue up to 20% of their issued share capital on a non-pre-emptive basis during the pandemic.

6. CAPITAL MARKETS UNION

I do believe that the recent CV19 experience in European capital markets demonstrates even more urgently the need to move forward with implementing key aspects of CMU. These include changes to European capital market structure and MiFID/MiFIR, securitisation frameworks, insolvency reform, post trade reform, and many other aspects.
CHAPTER II
AN OPEN AND INTEGRATED BANKING SECTOR
AT THE SERVICE OF THE REAL ECONOMY
In order to introduce the debate of this article, I have widely availed avail of the content of the document published by the *Markets4Europe* initiative, a European wide collaborative sector campaign aiming at proposing game-changing solutions to develop truly integrated EU financial markets as part of the 2019-2024 agenda. As ABI, we strongly support this initiative and are fully involved in its developments.

A fully functioning Capital Markets Union (CMU) is vital to meet corporates' funding and investors' investment needs. Greater diversity of financing will make European financial system more resilient and economies more capable of facing the enormous challenges and strains imposed by the Covid-19 pandemic, but also fundamental challenges in the coming years: an ageing society will demand a better allocation of household savings; digitalisation will be a game-changer for companies to stay competitive vis-à-vis new challengers and climate change will accelerate weather-related risks and risks that result from the transition to a CO2-neutral economy.

These challenges require that financial markets of the EU improve on both the funding and the investment side. One of the primary ways to get there is by financing innovation for growth. European companies need access to a variety of financing solutions to find those which best fit their business model and growth phase. Thus, the EU has to re-think financing in the form of ecosystems: i) start-up investors are more willing to invest if there is a liquid exit market; ii) small and medium enterprises (SMEs) may access capital markets through bond issuances, as a first step; iii) bank loans remain the most convenient part of their external financing; iv) companies often need to issue long-term bonds to refinance short- to medium-term bank loans taken out to expand initially. A solution would be to favour the development of European pension funds to allow them to invest more in direct company equity, either directly or via investment funds. The tax system could contribute to market development by supporting equity-financed investments.

Other ways in which the EU can serve its citizens are by: i) saving and investing in ageing societies; ii) promoting stability and risk-sharing; iii) financing the needs of sustainability (a liquid market for green bonds serves as a bridge between the long-

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term nature of green investments and the preference for short-term profits); and iv) strengthening the EU’s sovereignty in global competition. After Brexit, the EU, to compensate for the loss of London as a financial hub, has to support the stronger development of ecosystems in the EU and the interconnectedness of its financial centres. Stronger capital markets would also increase the attractiveness of the euro as a currency both for investments and for financial transactions.

The obstacles to deeper and more integrated capital markets can be distinguished along two major categories, depending on whether to be constrained is the availability of capital to invest in capital markets or the demand of enterprises for capital.

Obstacles included in the first category concern several aspects: firstly, the high degree of fragmentation of the EU banking sector: indeed, creating a genuine and effective CMU requires a vigorous role to be played by European banks in financial markets and a regulatory framework that allows the European banking industry to operate seamlessly across borders and play a strong intermediary role within capital markets; secondly, the fragmentation of the EU’s capital market caused by different national tax laws, company laws, securities laws and insolvency laws (including differences in procedural laws and practices), as well as a fragmented system of financial centres. And penal laws too. It has long been recognised that the EU needs a more integrated and harmonised securities post-trading environment, which would reduce the cost of cross-border clearing and settlement, of asset servicing and other related investor services; finally, retail investors’ behaviour to not invest in capital markets sufficiently, because they either hold more housing assets and less private pension assets or suffer the lack of trust or are held back by the complexity of related tax procedures, domestically or across borders.

Obstacles constraining the demand of enterprises for capital are represented by: i) difficulties to set up an enterprise, both in one country and across borders. In this field, digitalisation would be an important solution for enabling cross-border activity, but it is not sufficiently widespread; ii) taxation’s distorting effect; indeed, to be truly competitive, an enterprise must be able to choose the source of its financing based on the suitability of the financing, and not the tax treatment. It is also important to avoid taxes that result in undue strains on banks’ cost structure and thus impair their ability to finance the European economy. In this context, the impact of the VAT treatment of financial services should be considered, given that the current regime creates distortion and legal uncertainty; iii) shortage of visibility to investors, especially to cross-border investors. To provide the missing links between enterprises and investors, Europe needs a more diverse range of actors, e.g. more market-making and more company research; and iv) lack of a common standard for loan documentation which could reduce the complexity of securitisations and improve transparency for investors. The documentation of a loan to a non-financial corporation differs in each of the Member States, making SMEs loans less comparable on a cross-border basis.

To remove these obstacles and make further integrated, liquid, dynamic, and more resilient capital markets in Europe is necessary to intervene at three levels, respectively involving EU-level legislative actions, coordination of best practices among the Member States, and financial services industry actions.
EU-level legislative action would aim at: i) improving cross-border investment, for instance, by providing more clarity on which securities law applies to determine who owns what asset with harmonised seniority classification of claims across Member States, simplified and harmonised procedures for registering securities; ii) making securitisation a true bridge between lending and markets, by allowing banks to issue loans and sell loans as fully digital contracts, recalibrating capital charges and allowing banks and investors to open up capital currently locked in long-term capital-intensive bank loans for new/additional sustainable investments; iii) reducing the tax burden for enterprises, by harmonising the calculation of the tax base in the EU and introducing a special regime for start-ups (e.g. no taxes for the first three years); and iv) removing constraints on capital flows, by reviewing the rules on pension funds, insurance companies, and public investments.

Coordination of best practices among Member States would aim at: i) making taxation more friendly to investors in the EU, by promoting the implementation of TRACE (Treaty Relief and Compliance Enhancement), as a standardised system for claiming withholding tax relief at source of portfolio investments, and removing any tax bias against equity instruments, where it exists; ii) recovering through capital markets, especially in countries with outstanding state-owned enterprises; iii) making it easier to set up companies; iv) encouraging SMEs to access the capital markets; v) raising awareness of options for pension system reforms, by removing undue obstacles for pension funds and for insurance companies; vi) expanding knowledge of financial markets to create the next generation of investors and entrepreneurs, by improving EU campaign covering financial literacy; and vii) improving the EU’s leadership in global financial markets, by ensuring a progressively more coordinated supervisory convergence between the European Supervisory Authorities and the National Competent Authorities, and leading efforts on international standard-setting and the international regulatory dialogues.

Financial services industry actions would aim at: i) promoting the securitisation of SMEs loans, by the further harmonisation of the underlying loans, thus enabling capital markets to improve bank lending indirectly; ii) embracing new technologies for improving of transactions the efficiency; iii) activating industry role in financial education, in partnership with the EU and national governments, by teaching investors (students, households, and investors of different ages) the opportunities and advantages of long-term stock market investments and how to manage their risk through diversification; and iv) taking initiatives to help start-ups and scale-ups to be expanded, by exchanges aimed at creating a nourishing environment for growing companies.

Capital markets have the potential to boost the EU economy and deliver tangible, long-term benefits to the EU citizens. Let’s put the markets at work for the EU economy!
A Comparative Review of South-Eastern European Banking Sectors at the Time of the Pandemic Crisis

SAFET KOZAREVIĆ

At the beginning, it will be overviewed the main macroeconomic indicators and associated parameters of the SEE in order to situate the research issue, i.e. the banking sectors of the SEE region countries, in the wider, European context.

As far as the main macroeconomic indicators are concerned, it is important to highlight the following. Figure 1 illustrates the trends of the population changes over the period 2002-2018, where we can generally notice a continuity of the population reduction, that is, depopulation, in almost all the countries, except Turkey. In 2018 the total population of the SEE region was 185.5 million and it was 36.1% of the EU-28 population, which reached 513.6 million (Turkey’s contribution to the SEE population was 44.2%). There are plenty of reasons that could explain the current trend of depopulation in the region – demographic aging, persistence of high unemployment, corruption, consequential migrations to the Western European countries, to name but a few.

* PhD, Professor at Faculty of Economics, University of Tuzla
The total nominal GDP of the particular SEE countries from 2002 to 2018 is presented in Figure 2. In 2018 the total nominal GDP of all SEE countries was EUR 1.407,5 billion and it declined by 2,6% compared to the previous year (Turkey’s supreme share in the SEE GDP in 2018 was 46,7%). When we compare the SEE GDP of EUR 1.407,5 billion to the EU GDP in 2018 of EUR 15.909,0 billion, we can conclude that the SEE countries generate only 8,8% of the EU GDP.
A COMPARATIVE REVIEW OF SOUTH-EASTERN EUROPEAN BANKING SECTORS

Figure 2. Total GDP of the SEE countries over the period 2002-2018 (EUR millions)

All SEE countries registered the real GDP growth in 2018, as it is shown in Figure 3. The highest rate of real GDP growth was recorded in Montenegro (5.1%), followed by Romania and Serbia (4.4%), and then Albania and Slovenia (4.1%), while other countries had the rate of real GDP growth between 2% and 4%. Only Greece had the rate less than 2% (i.e. 1.9%). By comparison, an average real GDP growth in the EU in 2018 was 2%.
Average GDP per capita for the SEE region was EUR 7,588 in 2018 and it declined by 2.6% compared to 2017. It was still far below the EU average of EUR 30,980; descriptively, even 4.1 times smaller. As Figure 4 shows, while Slovenia was the SEE country with the highest GDP per capita and reached 71.3% of the EU average in 2018 (in absolute term, Slovenian GDP per capita was EUR 22,083), Ukraine was the poorest among the observed countries, with GDP per capita EUR 2,656 (the second lowest in Europe, after Moldova).
As a result of these mostly underdeveloped economies, which are substantially behind EU member states, probably the biggest economic problem for most of the SEE countries is chronically high unemployment rate (Figure 5), in particular of the youth. For example, while the general unemployment rate in SEE countries such as Kosovo and North Macedonia was above 20% in 2018, the youth employment rate was around 50% (54.9% and 47.6%, respectively). The lowest unemployment rate continued to have Romania (4.2%). However, because of intensified emigrations and presence of the shadow economy, we should have doubt in official statistics about real picture of unemployment in some SEE countries. In order to make comparison to the EU countries, in the same year an average unemployment rate in the EU was 6.8%.
In 2018 the inflation rate was between 0.6% and 4.6%, excluding Turkey and Ukraine with the inflation rates as high as 20.3% and 10.9%, respectively (shown in Figure 6). In order to make comparison, in the same year an average inflation rate in the EU was 1.9%.
I. BANKING SECTORS IN THE SEE REGION COUNTRIES

The financial service sectors of all SEE region countries are considered as being bank-centric. Banks (i.e. commercial banks) have been playing a decisive role for the economic stability and development for a long time. Documents of Basel Committee on Banking Supervision (BCBS) and the EU directives have been used as basic guidelines for designing the legal and institutional framework. While the SEE countries that are the EU member states fully implemented Basel III standards, the SEE countries that are non-EU member states are at the various stages of the process of adopting the standards (or recently have adopted them). Nevertheless, the implementation of the Basel standards in general is one dynamic process, leading to continuous revisions (that is, improvements) and suggestions.

As far as the selected banking indicators are concerned, it is important to highlight the following. The size of the banking sector relative to GDP, in terms of total banks’ assets as % of GDP, in the particular SEE countries indicates its great importance for the SEE’s economies, as shown in Figure 7. Therefore, it is critical to assess the stability and resilience of the banking sector and to identify the most sensitive areas. The total banks’ assets as a percentage of GDP in the SEE region countries was 96.8% in 2018. More specifically, while Greece recorded the largest share of banks’ assets in GDP (158.1%), Romania recorded the lowest share of banks’ assets in GDP in 2018 (51%). Apart from Greece, other SEE countries with the share of banks’ assets in GDP above the regional average in 2018 were Croatia (106.8%), and Turkey (103.8%). In order to make a comparison, total banks’ assets in relation to the EU GDP in 2018 was 272.8%; in other words, it was 2.8 times higher compared to the SEE region’s average.

Figure 7. Total banks’ assets as % of GDP in 2018
As Figure 8 illustrates, over the period 2012-2018 the size of the banking sector increased in all countries except in Greece, Slovenia, and Ukraine.

Figure 8. Total banks’ assets over the period 2012-2018

The number of banks per SEE countries, represented in Figure 9, varied from 10 in Kosovo to 77 in Ukraine in 2018. It did not change significantly since 2012, except in Ukraine, where it dropped from 176 to 77, Greece, where it dropped from 52 to 37, as well as Croatia, where it dropped from 31 to 21.

Figure 9. Number of banks in 2018
The size of banks in 2018 measured as average assets per bank also varied significantly among the SEE countries, traditionally from the lowest level in Montenegro, EUR 293.8 million, to the highest in Turkey, EUR 11,637.3 million (see Figure 10). The average assets per bank in the SEE region countries in 2018 was EUR 3,713,1 million. For the purpose of comparison, the average assets per credit institution (i.e. banking group and stand-alone credit institution, including foreign subsidiary and branch) in the EU in 2018 was EUR 13,525,7 million and it was 3.6 times higher than the SEE region average.

Figure 10. Average assets per bank in 2018

If we compare the size of banks measured as average assets per bank in 2018 to 2012 (see Figure 11), we can clearly notice that the average assets per banks decreased only in Greece, by 7.1%, and Turkey, by 10.4%.
In 2018 the market concentration measured as the share of five largest banks in the total banking assets, as shown in Figure 12, was the highest in Greece (96.8%), although it was much lower in 2012 (79%). The lowest market concentration in 2018 was reported in Serbia (53.5%).

Figure 12. Market share of five largest banks in 2018 (%)
Figure 13 reveals that inasmuch as we observe the market share of the largest bank, it was the highest in Albania (29.4%), followed by Greece (29.1%), Croatia (27.4%), BiH (27.2%), and North Macedonia (22.7%). The other countries had the share of the largest bank around a fifth of the market or slightly less. The lowest share was noted in Turkey (15.0%).

Figure 13. Market share of the largest bank in 2018 (%)

Figure 14 shows that in all countries, except Turkey and Ukraine, there was a high share of foreign ownership in the total banking assets. It varied from 62% in Slovenia to 90.2% in Croatia.

Figure 14. Share of banks with majority foreign ownership in the total assets in 2018 (%)
Bearing in mind the underdevelopment of the SEE financial markets and, as a consequence, the banking orientation to a conservative (core business) approach, in terms of operating in a sphere of attracting deposits and lending money, in all countries net loans undoubtedly had the highest share in the banks’ assets, as shown in Figure 15.

Figure 15. Composition of banks’ assets in 2018 (%)
Regarding the maturity structure of deposits in 2018, there was a mismatch between short-term and long-term deposits among almost all countries, as we can see in Figure 17. While Croatia and BiH had almost the same share of short-term and long-term deposits, the share of short-term deposits in other countries was much or less higher than the share of long-term deposits, except in Albania, where the share of long-term deposits (55.5%) was higher than short-term (44.5%).

As far as the maturity structure of loans in 2018 is concerned, the share of long-term loans was significantly higher than the share of short-term loans in all countries, except Romania (Figure 18).
The currency structure of deposits in 2018, shown in Figure 19, reflects presence of a major part of deposits (more than 50%) in the local/domestic currency, including Montenegro, where euro is local currency. The exception was Serbia, with the higher share of euro-denominated deposits (61%) than deposits in dinar (33%).
As far as the currency structure of loans in 2018 is concerned, shown in Figure 20, we can notice that loans in the local currency were dominating in the loan currency structure, including Montenegro, where euro is local currency. Only countries with the shares of loans in the local currency less than 50% were Serbia and Albania (more precisely, with the shares of 31% and 48,9%, respectively).

Figure 20. Currency structure of loans in 2018 (%)

![Currency structure of loans in 2018](image)

Considering the basic features of the banking sectors in 2018, concretely capital adequacy ratio in Figure 21, we can notice that the ratio in the countries varied between 15,6%, in Montenegro, and 23,1%, in Croatia, above the international standard of 8% or the rates required by national legislatives (10% or 12%). Over the period 2012-2018 movements in the ratio showed a stagnancy or even positive trend. A rare decrease was recorded in Ukraine.

Figure 21. Capital adequacy rate in 2018 (%)
The highest ratio of non-performing loans (NPLs) was recorded in Ukraine (52.9%), followed by Greece (45.4%). In Greece, the ratio of NPLs in total loans increased significantly from 31.3% in 2012 to 48.5% in 2016, and then fell in 2017 to 47.2% and in 2018 to 45.4%. In regard to Ukraine, the ratio of NPLs in total loans steadily increased since 2012, from 8.9% in 2012 to 35% in 2017, and then to 52.9% in 2018. While in Romania the ratio of NPLs decreased from 18.2% in 2012 to 5% in 2018, in Serbia and Albania this ratio decreased from 18.6% and 22.5% in 2012 to 5.7% and 11.1%, respectively. In other countries like Turkey the ratio was relatively stable over the period. The lowest NPL ratio, 2.7%, was recorded in Kosovo (see Figure 22). In 2018 the ratio for the EU has stood below the world average of 6.88%, at 3.2%.

Figure 22. Ratio of non-performing to total loans in 2018 (%)

Figure 23 represents that return on equity (ROE), a key indicator to assess the bank sector’s attractiveness for investors, was negative only in Greece (-0.3%), which was a continuum since 2014. The highest ROE in 2018 was registered in Kosovo (20.4%), followed by North Macedonia (16%) and Romania (14.9%). The ROE of European banks was 6.1% in 2018 for EU-28, up from 5.8% in 2017. But, it is still far from the 10.6%, registered in 2007 (and, simultaneously, the highest since 2007).
As Figures 24 and 25 illustrate, like in the previous year, in 2018 Romania and Ukraine recorded both the highest ratio of liquid assets to total assets (53% and 49.9%, respectively) and the highest liquid assets to short-term financial liabilities ratio (180% and 93.5%, respectively), which were far above the observed group’s average. On the contrary, liquid to total assets were repeatedly the lowest in Slovenia (12.2%), followed by Turkey (13.7%). The low liquid assets to short-term financial liabilities in 2018 were recorded in Greece and Turkey (26.5% and 26.8%, respectively).
Since the financial service sectors in SEE the region is highly bank-centric, the financial soundness of the banking sector has extreme importance for financial service sector and real sector of economy, their stability and growth. As we can conclude from the graphs, the SEE countries have had relatively high capital adequacy and, also, liquidity in their banking sectors. The resilience of the banking sectors will be strengthened by full implementation of Basel III requirements. Although reductions of NPLs ratio were reported across all SEE countries dominantly by those with higher starting ratio, NPLs remain unevenly distributed and elevated for some SEE countries.

2. PANDEMIC CRISIS AND ITS POSSIBLE IMPACTS ON FINANCIAL SERVICE SECTORS (ESP. BANKS)

Macroeconomic spillover effects of the “pandemic that shuttered economies” can be summarized in the following way. WHO announced the coronavirus COVID-19 (or SARS-CoV-2) pandemic on March 11, 2020. The term “pandemic” does not reflect the severity or mortality rate of a disease, but its geographical spread. Authorities in the affected countries have faced a completely new and largely unprecedented risk and many hesitated in taking a swift action. Some took a relaxed and ignorant approach and were swiftly punished with deadly outbreaks. Instead of assessing and managing the risk, some resorted to precautionary measures, primarily by suspending (“pausing”) high-risk economic activities. The common preventative action – social isolation or, more precisely, physical distance – has proven to be an effective measure, although the structure and implementation could be open for debate.

From the aspect of economic consequences (once health and safety elements are addressed), the necessity of suspension and isolation by the principle of universality should be re-examined, and perhaps compared to the principle of individualism. In
particular, the necessity of suspending such a significant number of occupations should be examined, especially the cases within a non-endangered or risk-free segment of the population. An essential question is: “Should we take and manage the risk or, as a precautionary measure, eliminate the risk that is now visible, and generate some new ones, on a possibly unimaginable scale?”. It is incredibly difficult for decision-makers to weigh whether they want to risk the lives of senior citizens and, in turn, save the working-age population from a potentially long recession or save lives and then take care of the economy. In both cases, people will die, now from viruses, later from poverty and comorbidities caused by stress due to poverty, unpaid loans, lost jobs and real estates, etc. Risk management in this context could benefit the so-called ALARA approach, 2 but with a very important note that the mentioned approach, in this case, “isolation without stopping the economy”, must be the first point, not the last, that is, if there is no other, “precautionary measures” should be approached when the victim must sacrifice and “the victim are financial losses”. Even the existing measures are not effective to the extent planned, the mass spread of the virus has not been avoided. It is undeniable that the coronavirus COVID-19 pandemic is first and foremost a threat to public health, but it is also an increasing threat to the economy.

In a broader sense, pandemics force individuals to change their usual patterns of behaviour, people change how and when they consume goods and services, and how and when they participate in the labour market. Insecurity and fear are the main drivers of how and why people change their normal behaviour during a pandemic. In extreme cases, businesses and households may lose confidence to the point of panic in financial markets, with investors overreacting, resulting in falling property prices. Increasing aversion to the risk of so-called COVID-19 shock and the usual flight to liquid assets due to uncertainty have already begun to have impacts on financial markets. Stock markets around the world have responded to the pandemic with worrying volatility as traders panicked out of fear. As a result of the recent turmoil, trade disruptions have been introduced throughout the market, in hopes of preventing panic trading. The COVID-19 shock will trigger a recession in some countries and a deceleration of global annual growth to below 2.5% — often taken as the recessionary threshold for the world economy. Moreover, the IMF predicts the worst downturn since the Great Depression because it expects that the global economy will shrink by 3% this year. The duration and depth of the crisis will depend on three variables — (a) how far and fast the virus spreads, (b) how long before a vaccine is found, and (c) how effective policy makers will be in mitigating the damage to our physical and economic health and well-being. The uncertainty surrounding each of these variables is adding to (d) people’s sense of anxiety, which is a fourth variable that will shape crisis outcomes.

2. ALARA (As Low As Reasonably Achievable) promotes a continuous process of improvement. The discussion is not about whether something is safe or not, but the question is what, given the risks, costs and benefits, is rationally possible to achieve (https://risk-monger.com/2020/03/20/covid-19-a-failure-in-risk-management/, Accessed: March 24, 2020).
What is happening in the sphere of production, turnover, and consumption, for the first time in this way in a broad sense is transformed into what is called the domino effect. Sudden interruptions in production activities in the most vulnerable regions will cause bottlenecks in global value chains. The concern is that exports of final products will start to weaken sharply, which further affects earnings and employment. The consequences of supply-side disruptions can, therefore, contaminate aggregate demand. Shortened working hours, working remotely and possible layoffs (for example, over 33 million people lost their jobs in the USA since the pandemic was announced) could very easily, among other conditions, reduce household consumption and increase economic insecurity for those who do not have access to social assistance programs. The increase in uncertainty about the effects of the COVID-19 shock will also delay private investment, but government demand can go up in many countries, to fight contagion through emergency health-assistance initiatives. Thus, the traffic sphere in all its manifestations will be destroyed, and the domino effect will not be able to be stopped.

An effective response to the economic consequences of the COVID-19 will require not only active and targeted macroeconomic measures, but a series of remedial policies and institutional reforms needed to build a robust, sustained, equitable, and climate-friendly growth trajectory that would reduce the chances of a subsequent economic breakdown. If the COVID-19 crisis has negative impacts on household and corporate spending, governments can avoid a slump further deepening of the crisis by increasing their own demand, especially for goods and services that are not in short supply, such as construction and social services. Due to the coronavirus pandemic, the USA, EU, and Germany have already approved billions of euros/dollars in loans and aid, primarily to areas of the society and economy affected by the current health crisis. A special aspect of interventions should be focused on the industries most affected by the crisis, such as tourism, transport and manufacturing as well as small and medium-sized enterprises, which in European countries employ 60-70% of the overall workforce.

When it comes to the impact of the pandemic crisis on the financial service sector in general, and banks in particular, we can expect the following, among other things:

Many countries introduced the moratorium on credit payments to banks and other financial institutions such as leasing companies and micro-credit organisations (or micro-finance institutions) during the state of emergency or, even, until the end of 2020. During that period debtors are obliged to pay interests, which increases their total cost of debt. However, the moratorium is optional for debtors.

Due to the fact that many small and medium-sized enterprises, such as restaurants, bars, gyms, salons, etc., have been forced by the pandemic to shutter their businesses, there is a possibility of their loan quality deterioration in banks’ balance sheets.

Because of job losses, fear or, even, panic, etc., to some extent deposits could be withdrawn from banks, which could generate an additional problem in terms of reduction of funds for placements and increase in capital prices. All this will further affect the standard of living and the economy will face serious challenges.
There is likely to be a slowdown in banks’ lending activities due to increased credit risk, which will mean lower credit volume and a further slowdown in economic activity, as in the case of the global financial crisis, which has grown into a global recession. With that difference now that the global epidemiological crisis, unheard of in the new history, leads to a new global recession, disruption of global value chains, drastic decline in many economic sectors such as aviation, tourism and hospitality industries, etc.

An additional problem facing banks is low interest rates. For example, the ECB has kept interest rates at record lows since the peak of the 2011 debt crisis. Monetary policies of low interest rates per se encourage banks to compensate low interest rates and the decline in net interest income by taking on a higher level of risk, on the contrary to the aforementioned.

This pandemic has led to a situation where the global economy is experiencing a slowdown and certainly goes to the new global recession. Hence, it is important for countries to have a stable banking sector and sufficient credit demand to prevent negative fluctuations within the business cycle. What is already known is the fact that indirect consequences are possible in terms of issues with access to international money markets, which have already led to a slight rise in interest rates and tightening lending conditions.

Decline in purchasing power and living standards due to mass layoffs could cause a declining demand for additional types of insurance, apart from mandatory insurance. Consequently, it could lead to a fall in sales revenue as well as the profitability of insurance companies.

Demand for other financial institutions’ services by individuals, which implies both consumption and investment, could also decline. According to PWC (2020), private consumption is reduced leading to a 0.5% increase in savings. Indeed, as people around the world are blocked from leaving their homes, they generally no longer need luxury goods, while their demand for office as well as sports equipment, online education, online shopping and delivery, etc., has increased.

A very important question in this context is: “What banks should do?”. We have found the following as of key importance for future bank business:

- Implement a comprehensive digital transformation, with the lowest fee charging of customers.
- Research related to ongoing changes in customers behaviour:
- Design proactive responses to the changes.
- Show flexibility towards those SMEs that face reversible, removable difficulties in their businesses caused by the pandemics.
- Preserve and, even, strengthen their capital adequacy as well as maintain control over NPLs.
- Provide continuity of the suppliers, i.e. create and implement a robust strategy for mitigating supply chain disruptions.
- Continue to improve risk management, etc.
Since the beginning of the situation caused by the Covid-19 pandemic, Association of Serbian Banks actively helped the overall efforts of banks and government institutions in combating the severe effects of the sudden lockdown. Economic measures taken by the Government and Regulators in the Republic of Serbia were intensive. ASB helped particularly to the National Bank of Serbia and Ministry of Finance in formulation or implementation of decrees regulations. Particularly, in some of them took the leading role representing the banking sector, such as: Decision on Temporary Measures for Preserving Financial System Stability and the Decree on the Guarantee Scheme to support economy through credits – adopted on April 16.

As far as the temporary measures are concerned, the idea was to find a solution to alleviate the burden of payments during the pandemic, which in many cases has meant reduction or suspension of working activity. Indeed, the moratorium is envisaged for all debtors who wish to apply it (natural persons, farmers and entrepreneurs, corporates) and implies a suspension of debt payments for at least 90 days, i.e. for the duration of the emergency state declared due to the pandemic. During the said period, debtors will be relieved of the repayment of their obligations under loan and lease agreements. However, even when these measures start to apply, borrowers and lessees will in no way be prevented from meeting their obligations on time.

With regard to the decree, 16 April 2020, the Government adopted the Regulation on Establishment of Guarantee Scheme as Supportive Measure to Businesses to Mitigate Negative Impacts of Pandemic of disease COVID-19 caused by virus Sars-CoV-2 (the “Guarantee Scheme”). The Republic of Serbia shall provide a state guarantee to local banks as the collateral for the loans granted to companies with the purpose of financing the liquidity and working capital. The guarantee agreement shall be executed between the Republic of Serbia, the National Bank of Serbia, and the local banks. The state guarantee is unconditional and payable on first demand. The total amount of the state guarantee is EUR 480,000,000. An individual state guarantee will be issued in favour of a local bank. Banks are entitled to grant the total amount of up to EUR 2,000,000,000 of loans to businesses for the purposes and under the

* Secretary General of the Serbian Banking Association
terms set out in the Guarantee Scheme. The Guarantee Scheme contains the eligibility criteria for granting of the loans to be secured by the state guarantee. A borrower of the loan secured by the state guarantee could be a local entrepreneur, farmer, or SME, to whom a bank has approved the loan pursuant to the credit policy of the bank and the Guarantee Scheme. Loans secured by state guarantee may be approved only for the purpose of financing the liquidity and the working capital of the borrowers and such loans may not be used for refinancing and prepayment of undue instalments of the outstanding loans.

But what we can say about the future prospects of the Serbian economy?

For the time being we know that credit rating of the Republic of Serbia was confirmed. Despite the coronavirus crisis, which has left an impact on the world economies, credit rating of Serbian republic stayed unchanged at ‘BB+’ with a stable outlook for further improvements.

As Fitch Ratings notes, the well-balanced budget for 2020, the fiscal discipline and central government deposits are creating enough space for post-crisis reactions.

Also, international institutions provided positive forecast for the Serbian Economy, such as IMF World Outlook. IMF forecast negative growth rate for Serbia this year, but also around 7.1% for the next year.¹

Having in mind that the European Commission recently published a roadmap for Recovery Towards a more resilient, sustainable and fair Europe, we may see that in the future the green transition and the digital transformation will play a central and priority role in relaunching and modernising our economy. Investing in clean and digital technologies, together with a circular economy, will help to create jobs and encourage growth, making us more resilient and less dependent by diversifying our key supply chains. Moreover, this would certainly allow Europe to make the most of the first-mover advantage in the global race to recovery.

The financial sector will play an important role in ensuring access to finance. Innovative partnerships and ways of unlocking finance, including through digital platforms, should be encouraged. Serbian Banking Sector is already fully integrated into the digital transformation and is giving its significant contribution to the whole economy and society, particularly to the sector of real economy and SMEs and in the light of recent government measures. Online businesses grew rapidly during Covid 19 crisis, and all of that would not be possible without role, capacity and readiness of banks. Besides that, their Innovation and inclusiveness capacity record at the same time already visible results and success, but also represent the challenges for local banks.

It’s up to the time ahead of us, in the so called Post Covid 19 period, to define more precisely which sectors and types of business will have a greater need for banks’ assistance, which will shape reversely the banking services and products on the market.

¹. Source form: https://www.mfin.gov.rs/en/
Banks and Smes Facing The Covid-19 Challenges and Structural Changes

STANISLAVA ZADRAVEC*

I. ROLE OF SLOVENE BANKING SYSTEM IN FINANCING THE ECONOMY

Before the pandemic the banking sector was in a strong capital and good liquidity position and moreover the credit risk in the banking system was assessed as low.

The uncertainties in the international environment were increasing, which was being reflected in weaker growth of credit demand.

Concerning the financial position of households, on which the banks have been increasingly focusing in recent years, was sound. Low debt ratios, high profits and high liquidity of corporate sector let estimate that corporates could be able to successfully absorb potential shocks from the external environment, which would limit their spread to the banking sector.

With the advent of the pandemic the situation has changed rapidly. The responses of all countries of the world to the fear of the disease were/are primarily focused on measures to limit its spread. Self isolation and closure of business lead a global negative economic cycle due to the paralysis of economic activity. All this has meant the interruption of cash flows and the drying up of corporate liquidity. Concerning to this, to prevent economic collapse and in the next step, to support a gradual recovery, immediate and urgent attention is focused on liquidity measures.

The European Commission is therefore in response to the need to provide liquidity to the economy, with the aim of avoiding a recurrence of the credit crunch as a result of the deterioration of credit ratings due to the depletion of corporate cash flows as early as 19.3. adopted a temporary framework for state aid measures to support the economy in the event of the outbreak of COVID-19.

On this basis, two measures were adopted in Slovenia, in the implementation of which banks participate, namely:

- Statutory deferral of payment of liabilities to banks for up to 12 months
- Guarantee of 2 billion EUR for new financing to support gradual recovery of economic activity (80% for SME and 70% for Corporates)

The banking sector can be part of the solution along with country action.

The role of banks in and after the crisis is aimed at the most effective support to

* Director of the Bank Association of Slovenia
companies in the process of gradual economic recovery with the support of the state of state guarantee measures which preserve the creditworthiness of companies in the interim period until the normalization of liquidity flows and supply chains and demand.

2. COVID-19 IMPACT ON BANKS BUSINESS MODELS DIGITALIZATION

Covid-19 has speed up the process of digitalization in banking sector mainly in payment services and settlement but shifting also to credit origination. The customer’s attitude has also changed, the use of mobile applications is more widespread.

This type of implementation may result in faster longer term structural changes including simultaneously reducing their branch numbers and workforces.

3. CYBERSECURITY

Enhanced shift towards digitalization drives stronger attention to the cybersecurity that surely will be positioned higher in the banks business strategies.

The following implementations are expected:
- Higher investments.
- Education/awareness.
- Upgrade of internal incident management processes.

Improvements on cross board exchange of information about cyber threats.

4. FINANCING SUSTAINABLE ECONOMY

While urgent attention on helping businesses and citizens to overcome crisis barriers and short-term liquidity requirements, recovery measures should not forget the opportunity to combine these with sustainable development goals that is one of key strategic issues on the EU recovery/development agenda.

Banks in Slovenia are aware of the importance of sustainability in business, and a considerable number of banks have already adopted definitions of the concept including sustainability in their business objectives by defining environmental and sustainability principles.
CHAPTER III
THE DEVELOPMENT OF INSURANCE MARKETS
IN THE NEW RISK SCENARIO
Insurance after Covid

MICHELE MORGANTI*

The life and health insurance landscape is undergoing significant changes owing to shifts in technology, demography and disease patterns, as well as a protracted period of low interest rates, which is expected to last for several more years. Some ongoing trends worth to mention:

- Digital will dominate human interactions and consumption patterns, also thanks to virtual reality and AI increasing capabilities and availability. As a consequence, a quick rise of the so called "consumer data economy” is expected, with the mass adoption of virtual assistant capabilities and blockchain as support in order to manage the digital dimension of individuals.
- Internet of Things will become the standard at households and business sites, increasing risk management requirements and telematics management needs.
- Reduced needs for mobility, both in professional and leisure needs; automated transportation becoming mainstream.
- De-urbanisation drive in advanced economies supported by digital infrastructure and lifestyle/sanitary requirements.
- Increasing longevity on a global scale and senior segment share of population will require new saving patterns, assistance economy vs. welfare, and the use of biometrics for continuous monitoring and prevention.
- Low interest rate environment and deflation to stay, fuelled by demographics and consumption change, and productivity increase through digital.

The Covid-19 epidemic has further accelerated these trends, forcing insurers quickly to adapt to the "new normal": life insurers are shifting to business models, which are dedicated to customers life-long financial and physical well-being. Insurers and reinsurers are exposed to the coronavirus outbreak: up to now, analysts keep seeing limited direct impact (low spike in claims), given the still low death rate, the exclusion both of pandemics from business interruption policies and of new viruses from Critical illness policies should limit direct impacts, both in Life and P&C.

There continues to be a high degree of uncertainty on the ultimate non-life insured loss bill from Covid-19: the first 3 months of the year has seen losses mostly associated with event cancellation and travel were a clear loss has taken place or there

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is a high degree of expectation of a loss. For the second quarter, there will be more clear and reliable picture.

We currently expect indirect effects to have a more material financial impact on the sector, through financial market fluctuations and the adverse impact on business volumes of an economic slowdown. In the insurance sector, indirect effects would affect:

- **Profitability**: Life segment is expected to be affected by the losses booked on financial investments, driven also by Surrenders and captions triggered by the economic slowdown and the increase in risk aversion (unit-linked case). This could represent a major concern in particular for the traditional life business. In P&C we see, as for the 2008 financial crisis, milder impacts.

- **Capitalisation**: One of the biggest impacts of COVID-19 is on solvency due to turmoil in financial markets. However, levels of solvency are expected to remain strong for the major EU players.

- **New Business**: a reduction in volumes is expected, driven by an overall reduction of propensity to consume, especially for SMEs. Moreover, the distribution model is under pressure, since physical interaction key sales approach is not viable and switching to entire digital end-to-end processes on overall catalogues is limited.

Evidence is then showing clients expectations turning towards protection. This means that we could see at least two trends going on: first, in Life insurance a Shift in demand from Unit Linked to Traditional due to higher risk aversion. We think this drop could be partially offset more likely by hybrid products (using switch clauses) rather than pure traditional products. Second, in P&C, Health coverage is becoming increasingly important (Rising public deficits in developed countries may diminish state contributions to health expenditure and provide more opportunities to the private insurance sector, while needs for health protection in emerging countries are already substantial) and Covid-19 emergency is accelerating Tech innovative solutions on this front (telemedicine, etc.). On the other hand, LTC seems to be the missing piece of the puzzle.
The Impact of Covid-19 on Insurance: Ideas For The (Near) Future
DARIO FOCARELLI

I. THE IMPACT OF COVID-19 ON INSURANCE – SOME IDEAS FOR THE (NEAR) FUTURE

To understand the impact of the Covid-19 pandemic on the insurance sector, two clusters of questions need to be explored:

• Economic consequences of Coronavirus
  a) Is the bear market already over?
  b) How bad the recession will be, and how long will it last?
  c) Debt Sustainability.
  d) Role for coordination.

• Insurance must be part of the solution
  a) Essential service vs. public utility.
  b) Actions to manage and overcome the crisis.
     i. Liquidity.
     ii. Solvency.
  c) Challenges for the future.

As far as the first cluster concerns, some considerations had been made.

2. ECONOMIC CONSEQUENCES OF CORONAVIRUS

a) Is the bear market already over?
Looking at the figure below,¹ we can see that the worst is apparently over, but:
- 11 bear markets in which the Dow fell by more than the 37.1%
  • On average, the final bear market low came 137 days after the 37.1% loss.
    Projected low on August 7, excluding the Great Depression: 90 days (June 20).
  • However, in 5 out of 11 cases, it happened in less than 1 month.

¹ General Manager, ANIA
The DJIA recently fell 37.1% from its February high. What next?

# days until end of bear market after DJIA first dropped 37.1%  

Average = 137 days

Source: www.HultB Ratings.com; Ned Davis Research

a) How bad the recession will be, and how long will last?

## Latest World Economic Outlook Growth Projections

The COVID-19 pandemic will severely impact growth across all regions.

<table>
<thead>
<tr>
<th>Region</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Output</td>
<td>2.9</td>
<td>-3.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Advanced Economies</td>
<td>1.7</td>
<td>-4.1</td>
<td>4.5</td>
</tr>
<tr>
<td>United States</td>
<td>2.3</td>
<td>-5.9</td>
<td>4.7</td>
</tr>
<tr>
<td>Euro Area</td>
<td>1.2</td>
<td>-7.5</td>
<td>4.7</td>
</tr>
<tr>
<td>Germany</td>
<td>0.6</td>
<td>-7.0</td>
<td>5.2</td>
</tr>
<tr>
<td>France</td>
<td>1.3</td>
<td>-7.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Italy</td>
<td>0.3</td>
<td>-9.1</td>
<td>4.8</td>
</tr>
<tr>
<td>Spain</td>
<td>2.0</td>
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<td>4.3</td>
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<tr>
<td>Japan</td>
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<td>-5.2</td>
<td>3.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.4</td>
<td>-6.5</td>
<td>4.0</td>
</tr>
<tr>
<td>Canada</td>
<td>1.6</td>
<td>-6.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Other Advanced Economies</td>
<td>1.7</td>
<td>-4.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Emerging Markets and Developing Economies</td>
<td>3.7</td>
<td>-1.0</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: IMF, World Economic Outlook, April 2020
These two figures show on the one hand, the latest world economic outlook growth projections and how the COVID-19 pandemic will severely impact growth across all regions; while, on the other hand, how likely the typical recession last. I argue that we do not know how long it will last, but the deepest dive on the global economy already showed up. Now, we are much more positive than what we were few months ago, but we should be very prudent.

b) “This is already shaping up as the deepest dive on record for the global economy for over 100 years. Everything depends on how long it lasts, but if this goes on for a long time, it’s certainly going to be the mother of all financial crises.”

Kenneth S. Rogoff

c) Debt Sustainability

From a macro-economic point of view, it is very important to look at how governments are sharply increasing the debt.

- To the question “Is this debt sustainable?”, the answer is very difficult. It is not a subjective answer, but it is an answer that Prof. Blanchard provided. We should assume the crisis leads to a 30 basis points (bps) increase of GDP.


• Answer for Advanced Economies: Yes, unless the virus wins.
  – R* (the neutral rate) is low and is likely to be even lower after the crisis:
    • If Uncertainty will lead to precautionary saving and lower investment.
    • Interest rate will increase but would be still lower or close to the rate of growth.
    • 2-4 bps per 1% of additional debt: so 60bp-120bps.
• Prof. Blanchard provided different answer for Italy and Developing Economies, for a number of reasons:
  – Italy
    • Important role of European Central Bank (ECB) in avoiding multiple equilibria.
      – “Good equilibrium”: debt sustainable at the safe rate.
      – “Bad equilibrium”: will bring worries, higher rate, debt unsustainable.
  – Emerging markets.
    – They are hit not only by the virus but also by the fall in commodity prices (if they are exporters), and large capital outflows by investors who need liquidity at home.
    – What should be done? Helping emerging-market and developing economies is a major and urgent issue. It is tough for advanced economies, confronted with the crisis at home, to be generous. But it is essential that they be.

d) Role for Coordination

“We find ourselves afraid and lost… We were caught off-guard by an unexpected, turbulent storm. We have realized that we are in the same boat, all of us fragile and disoriented… all of us called to row together, each of us in need of comforting the other.”
Pope Francis

• For what concern Coordination, it is highly desirable, but it is difficult and unlikely to achieve. Here are some examples:
  - Fighting for masks (and possibly in the future for tests, cures, and vaccines);
  - Disagreement at the Euro level on how to finance the recovery;
  - Even geopolitical divergences on the assistance to fight coronavirus.

Fortunately, at least at the European level, it seems that we were able to overcome the difficulties we were exposed to until months ago. However, this is a very difficult objective to achieve and more importantly, geopolitical divergences cover an ever-increasing role in these circumstances, and it is not obvious how to move forward from there. For what concern the second cluster of questions, below are enlisted the following considerations.
3. INSURANCE SHOULD BE PART OF THE SOLUTION

a) Essential service vs. public utility

- In many European countries, insurance has been defined an “essential service”, as in Italy.
  - On the positive side: the social role of insurance is reinforced.
  - On the potential negative side: in some countries, insurance is considered as a public utility not as a well-functioning private market. This is something important because numbers of countries from different political parties are pushing for something we do not need to pay.
- Obviously, all over the world there had been pressure from Governments for a “generous” reading of contract clauses to ensure that COVID-19-related costs can be covered (e.g. in health insurance or insurances for companies).
  - “However, where coverage for pandemics and other causes of loss were not included in existing policies or reflected in premium payments, requiring insurers to cover those losses retroactively could seriously threaten the stability of the global insurance industry.”5
  - “As a general principle, imposing retroactive coverage of claims not envisaged within contracts could create material solvency risks and ultimately threaten policyholder protection and market stability, aggravating the financial and economic impacts of the current health crisis.”6

b) Actions to manage and overcome the crisis

i. Liquidity.

ii. Solvency.

Basically, the idea is that we should do something immediate, something in the first three months where everything had been done and achieved. We should put forward a pandemic vaccinated business model, underlying both review and adjust customer strategy as well as structurally evolve digital distribution model.

i. Liquidity position of the Insurance Market

What had been learnt from COVID-19 in March 2020 is that such crisis might have an important influence on liquidity position of the market and on the solvency one.

On the liquidity side, we have the most surprising effect, since insurance is not

subject the same way the banking does to liquidity problems. In March 2020 we could have had some problems:

The exceptional volatility of financial markets puts pressure on companies’ liquidity:
- Higher margins on derivative markets.
- Surrendering on linked products, when a portion of assets is illiquid.

The insurance industry, like other businesses, is experiencing:
- A very sharp decline in the new business.
- Late or suspension of payments from policyholders.

**WHILE**
- Meeting its commitments on time.
- Offering support and liquidity to agents and clients.

Liquidity might be an issue, that is why at the European level companies are asked to be very careful on liquidity position.

An increase in surrendering life policies might occur in case of an intensification of the global recession.
- These trends may result in a compression of companies’ liquidity and/or forced sell of securities in a depressed market.
- Do insurance companies need access to Central Banks facilities? It is not excluded in the future, even though right now there is not an essential need. Generally speaking, given the sharpening increase in the role of insurance market in the financial markets it is predictable that we should take this aspect into consideration for the future.

- Stock valuations plunge, lower/negative risk-free rates and wider credit spreads create relevant asset liability management risks for life insurers.
- Risk-based capital approaches vary widely by jurisdictions, therefore the reaction of capital ratios to current market conditions changes.
  - EU Solvency II is probably the most sophisticated framework, but it is very sensitive to financial market volatility.
  - Solvency II is currently under a comprehensive review, which was supposed to finish this year.
    - During the review the need for improvement emerged, to better counteract the procyclicality effects of a system based on punctual market values, applied to a sector that has most of its business long-term oriented.
    - Huge fluctuations (at least 50bps decrease for SCR ratio) during the second half of March.
  - These concerns, in particular, the Volatility Adjustment mechanism, the risk margin calculation, the treatment of equities and deferred taxes.
    - It is unrealistic to end the review on time.
    - It is better to prepare for a quick fix approach.

b) Challenges for the future.

Four important points:

- Making healthcare more available and accessible.
  - We are experiencing a sharp increase in health coverage demand, it is a worldwide trend.
  - Telehealth is a key driver: services might foster the interest of uninsured.
  - The pandemic might persuade more people to reconsider their needs, with rising sales of health insurance, critical illness and life coverage.

- Develop products covering epidemics.
  - It is very difficult to be achieved.
  - How to protect more businesses and individuals than has been the case with COVID-19? Insurance businesses should be part of the activity to do that.
  - Cover against pandemics is impossible without state support (and possibly even with such support) … but we should start thinking about new solutions.
  - What kind of coverage? What is the optimal geographical size of the pool? How to involve financial markets?

- Offer better protection for older people in a “lower for longer” interest rate environment.
  - Both life insurance and annuity products might be used for long-term care
(and/or medical care) and the full death benefit or cash value should be available where care never/partly used.

- Support a comprehensive (EU) recovery plan integrating the green transition and digital transformation, while meeting both financing obligations and fiduciary duty.
  - Long term investors might match their liabilities by investing in such plan.
  - Crucial point is a regulation which do not penalize long term investment, forcing a 1-year horizon evaluation.
  - Tax incentives for final investors who accept a given degree of illiquidity to their policies might prove to be effective.
Insurance Business in the Time of Pandemic and Post-Pandemic Changes

SAFET KOZAREVIĆ

Coronavirus COVID-19 pandemic crisis brings new challenges to insurance business. At the heart of the matter is what the insurers could do in order to achieve proactive reactions to ongoing changes. COVID-19 has clearly demonstrated that disease does not respect state lines or stay confined to discrete neighbourhoods, with nearly every state imposing some level of business closures as a result of the pandemic. It is a common opinion that those companies who adapt and maintain their relationship with clients/customers and other stakeholders in the fastest way will survive. This is a crisis that requires an urgent response.

The insurance industry is no exception. It is perhaps ironic that while most insurance companies and agencies continue operating as “essential businesses” under applicable state mandates, the flood of claims under business interruption insurance policies could make the prospect of shuttering doors a real possibility.

Adapting Insurance Products for Pandemic Risk – But the question is how to calculate the true insurance premium and who to hold accountable for payment. Historical examples help insurance companies price risk, but there are only three or four pandemics in the past century on which to base models (an encouragement refers to the use of historical data in pricing pandemic insurance, going back to the Middle Ages if need be). Parametric insurance provides a simple way around the uncertainty in pandemic risk, but only better understanding and quantifying the risk can give proper clarity to the trigger. Without appropriate measures to reduce or transfer risk, the losses can only increase, making pandemic risk unattractive to any insurer. For example, during the Ebola outbreak, pharmaceutical companies were called on to produce vaccines, but the companies feared possible lawsuits at national and international levels. Villalobos encouraged managing this risk in advance of the epidemic and working out liability insurance for pharmaceutical companies.

2. PhD, Professor at Faculty of Economics, University of Tuzla
3. That is why domestic companies need to take the initiative now and turn the crisis into an opportunity.
Epidemic risk was something all insurers are exposed to, but diversification of risk is important. The insurance and reinsurance markets will need to collaborate closely to determine what the premium price points should be. Besides, it is very difficult to get governments to pay premiums to hedge risks against shocks like COVID-19. One example of the solution is an Australian (i.e. country’s) pandemic risk insurance pool, one option being mooted by the Insurance Council.

New and innovative products will be expensive, but as time passes and the product becomes more established, the market will bring the price down.

The insurer’s motivation to cover pandemic and epidemic risk can be described as “a double bottom-line approach”: the insurer has a desire to develop a profitable product for the company and, in the case of outbreaks, this profit motive aligns with the good of society. Moreover, a long-term interest in fiscal discipline could assuage the problem; setting aside an outbreak contingency fund is probably not an option in much of the world, but having the fiscal space to absorb the first weeks of a crisis could be.

Some experts have cautioned against overselling the value of pandemic insurance as a hedge for risk in the life insurance market, as people in poor countries do not generally have life insurance.

In response to travel bans, school closures, and recommendations to not gather in large groups and keep our distance from fellow humans to limit the spread of the virus, many people turned to digital tools to keep some semblance of normality. It has been imperative to digitally transform our places of work and education to be able to operate effectively. Those companies able to use technology well to keep going and rethink their business model for the future by fast-tracking digital transformation will be ones ahead of their competition.

The insurance industry’s real opportunity is digital transformation. The customer-centric revolution has finally reached the insurance industry. Slowly and sometimes reluctantly, large insurance carriers realized that confusing forms written in archaic language frustrated their customers, who perceived the industry giants as only trying to protect their own interests. After all, most carriers did not even refer to them as customers; they were “policyholders” or “claimants.”

3. While some companies will eventually go back to rigid work-in-office policies, it is expected that some will realize the benefits to employees and that in fact, it can be done effectively. If nothing else, they will have valuable experience about what is needed and how to accommodate work-from-home needs in the future when it is required again due to another outbreak or other reasons.
Buyers are becoming more digitally adept. This trend is not simply driven by age, as Gen X/Yers and Millennials overtake their less tech-savvy parents and grandparents. Older generations are becoming more digitally proficient, too, and many grandparents today are as adroit with Facebook and online shopping as their grandkids are. So, while the population shifts to a younger generation of insurance buyers, the growing technological sophistication of earlier generations is accelerating the trend. Today’s insurance consumers can be broken into four groups: (a) digital native, (b) digital adopters, (c) digital competent, and (d) digital challenged. The importance of this customer evolution for insurers is clear. Currently, over 50% of personal lines buyers (digital natives and digital adopters) have high expectations for a concrete, pervasive, simple, purposeful, and engaging digital customer experience. That is up from under 40% just 10 years ago. By 2025, they will represent more than 70% of insurance buyers. Carriers who do not embrace those changing demographics — and take on the cause of digital transformation — are apt to be left in the “digital dust.”

Pursuing a bona fide digital strategy has two core aspects. First, it is outward-looking, focused on emerging customer needs and preferences rather than internal needs like legacy processes, products, and reporting. Second, it is pervasive. It incorporates all elements of the value chain, from payments processing to regulatory reporting and compliance to historically mundane back-office operations — not just product development, pricing, underwriting, and claims. A digital strategy is not developing a new snazzy website or launching a smartphone app. Improving and tailoring the customer engagement experience is vital, but improved user interface and user experience alone will fail if underlying processes, approaches, and thinking do not embrace a pervasive digital approach.

There is a high importance of technology under COVID-19 circumstances. Remote working — and learning — is easier for all with cloud meeting and team collaboration tools such as Tencent’s WeChat Work or Alibaba-owned DingTalk. In response to the COVID-19 pandemic, many technology companies are rolling out tools that can support companies and organisations when going remote for extended trial periods or for lower fees. Here are a few:

Google is allowing free access to advanced features that normally have a fee every month for Hangouts Meet to all G Suite and G Suite Education customers for several months.

Microsoft offered a free six-month trial of its top tier of Microsoft Teams to enable schools, hospitals, and businesses in China to keep operating even with the restrictions of pandemic.

U.S.-based video-conferencing provider Zoom saw its stock price rise during the crisis; clearly people are seeing the value of remote-working tools. Zoom lifted the 40-minute limit from its free Basic plan for China when COVID-19 hit the country. Doctors in China from more than 1,000 hospitals used the service for online consultations.
LogMeIn is offering healthcare providers, educational institutions, non-profit organisations access to its video conferencing tools, including GoToMeeting and Go-ToWebinar.

Cisco is fortifying its Webex tool to properly support companies during the coronavirus in the 44 countries its available in, including offering 24/7 assistance for businesses using the tool.

Before the COVID-19 outbreak, there was some progress made in telemedicine; however, public health officials are pushing healthcare systems to expand their telemedicine through smartphones and other tools.

Technology can assist in triaging patients and in diagnosing those without the illness but are worried they might have it from seeking treatment at overcrowded facilities by talking to them through telehealth technology. And, using telemedicine limits human-to-human contact, critically important to slow the transmission. There are certainly many advantages to telehealth but also challenges that need to be overcome! Healthcare systems are being forced to address them sooner rather than later with COVID-19. In fact, a bill for coronavirus funding in the U.S. Congress waives the rules that usually restrict video services for people on Medicare, a move that really emphasizes the potential for telehealth in not only this current outbreak but in the future.

Effects of COVID-19 to the SEE insurance market is limited since this market is still underdevelopment compared to the Insurance Europe (IE) members states. Considering the volume of the SEE economies (esp. banking sectors as their inherent parts), there is a serious potential for the insurance markets growth in future. Due to bank centricity of the financial service sectors, the investment potentials of the insurers are still far below the banks. The motor third party liability (MTPL) insurance has supremacy over other types of non-life insurance as well as life insurance. Further economic reforms as well as political stability are imperative needs for the EU integration process of the SEE countries that have the (potential) candidate status.
Contributions
DARKO BLAZHEVSKI

I. COVID-19 HARD IMPACTS

What Is The Infection Intensity/Dynamic In Your Country And What Are The Main Impacts Of Covid-19 Pandemic On Macroeconomics

The infection intensity of Covid-19 crises in North Macedonia is going through the second pick of new cases. The estimations are that growth of the GDP will be negative from -4% to -7%, but still difficult to estimate the level due to unknown duration and intensity of the Covid-19 crises. The public deficit is increasing and new Eurobond (EUR 700 million) was recently issued in order to support the budget execution. This new debt will increase the public debt to 60% of the GDP. Over 15,000 jobs have been lost in three months, making over 121 thousand unemployed at the end of May.

What Are The Main Impacts Of Covid-19 Pandemic On Insurance Business

The insurance business faces decreased sales, especially in NL classes of business connected to transport and traveling. No effect on health insurance is noted, since its small in scope and coverage, and public health is taking the burden with the Covid-19 crises. Life insurance hasn’t faced the consequences yet, in these 3 months, but we expect increased level on surrenders, lapsations and capitalisations till the end of year.

The Role Of The Regulator

The Insurance Supervision Agency (ISA) has introduced regular weekly reporting from the insurance companies and occasional querying for additional reporting on different issues, has postponed supervisory reporting while the state of emergency period, and has postponed on-site supervision. The screening showed couple of common problems, such as unpaid GWP receivables for longer periods with increased possibility of default, not sufficient funds to enable coverage of technical provision.

* Insurance Supervision Agency, Skopje
with allowed financial instrument, and possibility to break the time limits set by the law for claim processing due to decreased regular functions. ISA has taken into consideration all of these questions and has made changes on 3 by-laws that enable till the end of this year the following a) 60 days are added to impairment scale for GWP receivables, b) GWP receivables up to 10% from technical provisions are accepted as allowed coverage instruments, and c) claim processing term from 2 days prolonged on 5 days for establishing the initial reserve.

Focus On Solvency And Capital Solidity

- One of the biggest impacts of COVID-19 and of the turmoil in financial markets is, for the insurance industry, Solvency on capital solidity. In particular, solvency ratios are expected to face non-negligible pressure. Since solvency and capitalisation are key for the insurance industry and for its clients, do you see possible effects in terms of Market selection/consolidation?

I consider that the insurance sector is well capitalized to absorb the pressure. For this three months, most the companies are facing decreased premium, but some also report increase. On the claims side, most of the companies have reported decreased claim payments although this indicator is very volatile among insurers. The crises will certainly decrease their productivity and will result into less earnings. Also, most of the insurance companies has taken into consideration not to pay dividends and increase the reserves. Having these factors into consideration, I don’t believe that neither solvency on capital solidity will be triggered, nor consolidations will be made.

2. COVID-19 SOFT IMPACTS

THE ESG REVOLUTION AND THE ROLE OF TECHNOLOGY

- The ESG theme is becoming the new paradigm on a global scale. How do you see post pandemic ESG evolution (Investment landscape; Insurance Clients interest; ESG labelled Products; Human Safety Networks; Other)? Is it possible to combine the investment opportunities that will arise after the health emergency with socially responsible investment policies?

ESG criteria has not been present in investments strategies of the insurance companies in North Macedonia. What is more, the ESG is not present in the country in general, neither as a stock market code or any other form of development encouragement.

- Is technology a key factor to boost growth after Covid pandemic? What will be the role of digitalisation in the supply of insurance products (digital vs physical offer, remote contracts development, etc.)?

I believe that the Covid-19 crises will be a valuable lesson for the insurance companies to increase the role of digitalisation in the supply of insurance products. Up till now,
the on-line sales with definite transactions was able only for travel insurance and MTPL in couple of companies. Property line of business was offered but more as a starting on-line, and completing the transaction with agent contact or other kind of physical contact.
Contributions

LUCIANO CIRINÀ

I. COVID-19 HARD IMPACTS

What Is The Infection Intensity/Dynamic In Your Country

The intensity of pandemic was initially devastating. Managing this crisis and at the same time follow the warnings was very challenging. Thankfully, decisive and quick decisions such as actions taken by the governments of the region indeed limited the spread of the contagion in respect of Italy, Spain, UK.

What Are The Main Impacts Of Covid-19 Pandemic On Macroeconomics

I think that we have to wait for Q2 and Q3 period in order to see the full impact of decrease of GDP. We expect a decrease of 10% (from +4 to -6%). Many countries in the region have the possibility to face the situation better than others, thanks to lower debt and to a good budget situation. Regarding unemployment, the hit to the occupation arrived in a moment of almost full employment. Although there will be consequences, the situation could turn out to be better.

What Are The Main Impacts Of Covid-19 Pandemic On Insurance Business

We notice a drop in GWP and new business and there is no high pick of surrenders. Claims (such as travel insurance and bankrupt) were lower because of the lockdown, especially in March and April, but trend will normalize in the short term.

The Role Of The Regulator

Supervisors prudent suggesting to postpone dividends payout.

* Austria, CEE & Russia Regional Officer, Generali
Focus On Solvency And Capital Solidity

- One of the biggest impact of COVID-19 and of the turmoil in financial markets is, for the insurance industry, Solvency on capital solidity. In particular, solvency ratios are expected to face non-negligible pressure. Since solvency and capitalisation are key for the insurance industry and for its clients, do you see possible effects in terms of Market selection/consolidation?

First of all, we have to remember that Generali group concluded the YE 2019 with a Solvency Ratio at 224% (+8pts above the YE18), probably the highest among the main European competitors.

All our companies in this region remain very solid in terms of solvency. This highlights our resilience to such severe environment.

What I hope is that this crisis might be the opportunity to encourage clients to focus more on the solidity of their insurer and not just on the price offered. Still, in our region there are some local, small or medium sized competitors who are running the insurance business on offering the minimum price, this practice might cause bankruptcies and intervention of the guarantee funds.

2. COVID-19 SOFT IMPACTS
THE ESG REVOLUTION AND THE ROLE OF TECHNOLOGY

- The ESG theme is becoming the new paradigm on a global scale. How do you see post Covid ESG evolution (Investment landscape; Insurance Clients interest; ESG labelled Products; Human Safety Networks; Other)? Is it possible to combine the investment opportunities that will arise after the health emergency with socially responsible investment policies?

Since 2007 we have been adhering to the UN Global Compact and since 2011 to the Principles of Responsible Investing. We started by excluding from our investment criteria the companies presenting a poor level of ESG practices or not meeting the Generali ethical principles.

Then, we continued by selecting and investing in the companies which show the best effort in implementing good ESG practices. We took a further step two years ago by creating The Human Safety Net: a long-term program which promotes initiatives having positive social impact. After that, we decided to allow the involvement of the majority of our employees in the Human Safety Net. They do so either through private donation or voluntary personal engagement. I am also proud to report to you that Generali group had established an Extraordinary International Fund of 100mEur which addresses both the health and economic impact of pandemic in countries where Generali operates.

- Is technology a key factor to boost growth after Covid pandemic? What will be the role of digitalisation in the supply of insurance products (digital vs physical
offer, remote contracts development, etc.)? In the healthcare business, do you see innovations like Telemedicine as an opportunity? What are the main challenges in developing this line of business?

At the beginning of the pandemic we executed in few business days, a total switch to an almost fully remote mode, with an average of 80 to 95% of our human resources in home office.

People, especially those who lived in the most affected countries, felt unprotected and fragile.

Much more of services, health services included, will be delivered digitally. Thanks to increasing trust the telemedicine, video consultations, telehealth delivery will grow now faster in adoption and acceptance.

The important criteria in the choice of an insurer, and in the client’s loyalty to it, are:

- high quality of the products in terms of coverages and services;
- delivery of an excellent customer service (digital and not only);
- easy and fast claims settlement.
Contributions

SAMI MAZREKU*

I. COVID-19 HARD IMPACTS

What Is The Infection Intensity/Dynamic In Your Country

Kosovo has a population of around 1.8 million in total. During the Covid-19 period, we had 1263 cases, from which there are 31 deaths. But, we now have only 320 active cases which means that a number 912 people have healed from the virus. In the last 2 weeks, the Government has taken a decision to ease the measures of movement of people and cities were removed from quarantine, but as much as it had a great effect on the economy, the data shows that we have a higher number of infected people for more than 200 in the last week. This shows that the virus is still spreading and its dynamic is moving forward. Kosovo, from all countries in the region, is expected to suffer the most from the economic crisis caused by the pandemic due to the projected decline in investment to 21.5%. This contraction will come as a result of declining public and foreign investment. The latter has been in the form of real estate investments in our real estate for years. While governments were initially focused on imposing restrictive measures to prevent the spread of the virus, today they are dealing with its social and economic consequences. Kosovo as the Western Balkans, similar to the rest of the world, is expected to enter a recession, the extent of which will depend entirely on the duration of the pandemic. The World Bank talks about a contraction of the regional economy by 3.1%. Montenegro and Albania are expected to have the largest economic decline in the region with 5.6% and 5.0%, respectively, due to the large role of tourism in their economies. Meanwhile, the economy in Kosovo will decline by 4.5%, in Bosnia and Herzegovina by 3.2%, in Serbia by 2.5%, while Northern Macedonia is expected to go through the “easiest” crisis with 1.4% economic decline. One in three workers in the most affected sectors is at risk of losing their jobs. This will further increase poverty in the country by 10%. While consumption can recover faster, exports and investment will take longer to recover. We still do not have a complete picture of the economic crisis because the pandemic is still going on, but what is known is that the daily damage in Kosovo is estimated at around 6-10 million euros. Western Balkan countries have taken emergency mea-

* Insurance Association of Kosovo
ures to support citizens and businesses during the pandemic. Economists categorize emergency mitigation measures into three major groups: 1) fiscal and trade measures, 2) monetary and financial measures, and 3) social protection measures. All governments in the region have adopted combined measures by subsidizing workers’ wages for businesses, reducing or postponing tax and credit payments, and providing access to subsidized business loans. Most countries have also temporarily increased social schemes for families in need and retirees. The emergency fiscal package in Kosovo contains a dozen measures worth nearly 200m euros. These funds have been allocated to subsidize the private sector, to support public sector workers on the front lines, to help beneficiaries of social schemes, to ensure the financial liquidity of public and private enterprises, to support municipalities affected by the pandemic, to help minority communities as well as agricultural producers. With a package of 2.8% of GDP, Kosovo ranks second in the region. Another comparative indicator of measures is the level of subsidizing the monthly salary of workers. Kosovo and Albania have paid 100% of the minimum wage for 2 months. The special feature of the package in my country was the payment of 130 euros per month after the registration of workers who did not appear anywhere as employees and an additional payment of 100 euros per salary for employees of supply sectors such as food store workers, bakeries, as well as pharmacies.

What Are The Main Impacts Of Covid-19 Pandemic On Insurance Business

The emergency package is fulfilling its role, but we are now in the next phase, that of economic recovery. As a result, the new package must contain an action plan for the implementation of the long-term economic strategy for the development and transformation of the country’s economy beyond the remediation of the consequences of the crisis. Today, Kosovo is the third country most affected by the crisis in the region and of course, it had a great negative impact on the insurance industry. During these months from March 2020 until May 2020, there has been a decrease in gross written premium by 50%, and also the number of claims paid was at 10 million, which about the same amount comparing it with the same period of the last year. Voluntary sales have gone down by 13%, which means that distributors/agents/intermediaries are having great difficulties keeping up with this new development and find it yet hard to make any kind of adaptations. According to our data, life insurance premiums has a positive result comparing to 2019.

The Role Of The Regulator

Having all this into mind, we go and take a look at the role of the regulator, the Central Bank of Kosovo who is continuously monitoring the performance and sustainability of the insurance industry. Despite the crisis, which we do not know the duration of, and the gradual opening of the country and the ease of emergency measures, the CBK evaluates that there would not be much negative impact that would cause the closure of any insurance company, so as of right now, the CBK is not tak-
ing any specific measure for the industry. What we must admit is that CBK has approved the associations’ request to postpone the time limit to report to the CBK for monthly and quarterly basis, until late June 2020. Since insurers did not have the idea of the outcome and the impact of the COVID 19 until now, this act by the CBK was very welcomed. The CBK has taken measures such to keep the sustainability of the insurance industry intact, likewise doing so with the banking sector.

**Focus On Solvency And Capital Solidity**

One of the biggest impacts of COVID-19 and the turmoil in financial markets is, for the insurance industry, Solvency on capital solidity. In particular, solvency ratios are expected to face non-negligible pressure. Since solvency and capitalisation are key for the insurance industry and for its clients, do you see possible effects in terms of Market selection/consolidation?

Kosovo’s insurance market is 52% based on MTPL insurance so, with all side effects that COVID 19 can bring us, it should teach us that we must get our focus right and develop new insurance products and have a bigger penetration on voluntary insurance market. Only last year we have made a change/increase on the MTPL premiums which have not been changed from 2001, despite having the regulation change, the 10 time increase in insurance coverage and other factors. This year, it was that effect of the premium rise that kept the insurance companies going through these hard months affected by COVID 19. Our government took some measures that would allow the citizen to go out of their homes for necessities for only like 1.5 – 2 hours per day, and at that time travel by motor vehicle was prohibited and only allowed for specific companies offering services/products. This decision, had a great negative impact on insurance sales so that it directly impacted the solvency part. A lesson that we should take here is, that we need to raise our expertise on risk assessment processes, and make smarter decisions on which part of the market we want to do business in, which would orientate us more and keep in mind that situations like these might come. We also should keep one other thing in mind that, this crisis might at later this year bring some insurance companies to a point where they go bankrupt, because of different reasons, but mainly by having a negative solvency resolution.

**2. COVID-19 SOFT IMPACTS**

**THE ESG REVOLUTION AND THE ROLE OF TECHNOLOGY**

- Is technology a key factor to boost growth after Covid pandemic? What will be the role of digitalisation in the supply of insurance products (digital vs physical offer, remote contracts development, etc.)?

We have seen the technology development through years in the financial sector, including Reg-Tech, etc. Financial services are being digitalized and offered in faster
ways, which increases the penetration itself. But of course, as the example might be in other countries, in Kosovo we need to strengthen the use of the digital signature in order to promote digital offers. The pandemic has taught us to move forward and make more insurance products available online. Regarding online sales, there is legislation in place, but until now we have not been able to find its defects, meaning that they must change and adapt to more practical use than just stand there in a written form. We have had this issue with MTPL, where according to law it is obligatory to sign the insurance policy. Sales continued online, but people started having issues on the registration procedures, because those are not online and such the institution required the original signed copy of the insurance policy. We had to make some adaptations so that insurance policies sold online would be accepted and this was a hard task. So now, we are evaluating the whole legislation in order to adapt to new needs – and this is completely technology-driven.

In the healthcare business, do you see innovations like Telemedicine as an opportunity? What are the main challenges in developing this line of business?

The health insurance market in Kosovo is around 3% and yes, on the question if we see this as an opportunity, COVID 19 has taught us all that it is. Having the possibility to make appointments and checkups online is a great idea, though we cannot deny it faced challenges. One of them is that people are used to having the 1-1 appointments directly with the doctor, which means that implementing innovations like Telemedicine would have an impact on changing the habits of the insured. Others might be those regarding the protection of personal data, which today is a big industry risk and here in Kosovo, we are slowly adapting to the new GDPR directive, which by the way we have a new law in place which is in full accordance with GDPR. So yes, be able to implement these ideas, we have to face big changes with people’s characters and habits, and we can only achieve this if we work together as an industry.
CHAPTER IV
FUNDING THE RECOVERY PHASE:
DEVELOPING LOCAL CAPITAL MARKETS
TO FINANCE GROWTH AND INCREASE LIQUIDITY
In the post-COVID 19 pandemic recovery phase, the financing that many corporates need to survive and grow will become stretched and therefore the mobilisation of additional sources of finance will become an increasing priority for all. No single source of finance will suffice – in a bank-dominated system such as South Eastern Europe (SEE), capital market financing will become a much greater priority in order to spur growth and support the rebuilding process, as banks cannot bear the weight of corporate financing alone. A defining point of this crisis is that it is totally exogenous and unexpected, which in turn requires an unprecedented response.

Due to the large fall in GDP across the SEE region in 2020, companies and also governments, trying to mitigate the negative economic and social effects of the epidemic, will need more financing. Budget deficits are anticipated to increase by 2 per cent to 7 per cent of GDP in 2020. Banking sectors across the SEE region, already highly exposed to domestic sovereign debt (up to one third of their lending), will not be able to cope with this dual challenge on their own. While Non-Performing Loans (NPLs) have declined throughout the region, they remain high in some countries (Above 7 per cent in Bosnia and Herzegovina and above 8 per cent in Albania), and credit quality is set to decline due to the oncoming recession. Government facilities (e.g. credit guarantee funds) can help increase the willingness of banks to lend to companies, especially to Small and Medium Enterprises (SMEs), but it is unlikely that this will be sufficient to meet the increasing financing needs of many corporates.

So far, a lot of COVID-19 approaches globally are favouring grants rather than loans, but even these are insufficient to meet the huge financing needs. This is one of the reasons why, it is important to encourage private investment flow both into and within the region and identify the relevant incentives. Grants are a useful tool as a first response to stem the hemorrhage, but an efficient and effective investment ecosystem is of paramount importance in rebuilding these economies. The utilisation of capital markets and a number of different capital market instruments is critical, as is the strategic use of development finance for the mobilisation of additional capital towards sustainable development in developing countries.

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The role of International Financial Institutions (IFIs), such as the European Bank for Reconstruction and Development (EBRD), is critical but it should not be overstated. The EBRD was established to deal with crisis and reconstruction and it has designed, agreed, and is already delivering an evolving and dynamic €4 billion “Solidarity Package” as an early response to the post COVID-19 rebuilding requirements. IFIs with their participation, can provide deal enhancement such as first loss guarantees to mobilise private finance quickly and make deals more attractive to other investors, especially in sectors that are in urgent financing need. However, at the same time it is important that their intervention does not crowd out private investment—rather it needs to enable it. Equally, it has to be recognised that the balance sheets of the combined IFI community are finite and that limited guarantees to mobilise other sources of finance are likely to be more effective.

Capital markets will need to be utilised by governments to finance their deficits and emphasis should be correctly placed on Local Currency borrowings through the capital markets. Both Central Governments and Municipalities have borne the brunt of responding to the emergency and their finances are accordingly stressed. Equally much of their revenue is in local currency so local currency borrowing will reduce their currency exposure at a time of heightened foreign exchange risk and volatility. An enhanced local currency bond issuance program seems a priority at this time. Given that capital markets in the Southern Eastern region are relatively underdeveloped, as highlighted also by an EBRD comparative study on issuing and trading debt securities, the first step is to ensure their robustness and effectiveness as viable financing channels.

To support these worthy goals, governments might consider, amongst others, the following measures: (a) providing tax incentives for investing in debt securities such as corporate bonds or equities that are beneficial for both institutional and retail investors. This has the duel impact of both providing additional stimulus for the issuance of corporate debt and equity and reducing the downside risk to prospective investors; (b) introducing scalable fees to encourage more cost effective issuance of corporate bonds (especially for larger issues) and processing or settlement of bond trades; and (c) building investment products that may encourage a greater range of both foreign and local investors.

Capital markets are also very much needed for the financing needs of SMEs. Access to finance for SMEs has been challenging, even pre-COVID-19, but the situation has been further aggravated during this period. The banking sector is overwhelmed and as a result, enabling SMEs to tap into capital markets is key for the recovery phase. However, the best instruments to stimulate this activity is still in question. Whilst mini bonds might present an option, investor protection needs to be strengthened. Equally, securitising loans to SMEs through a secured note instrument seems promising but substitution of eligible loans remains challenging because the underlying instruments are not as homogenous as mortgages and credit card receivables. Equity remains arguably the most viable funding strategy for SMEs, but the as market risk remains high, investors will require more in compensation. This is likely to drive down valuations in the short term, but for those with a longer terms horizon there may be significant value.
In these unprecedented times, it is clear that SEE region needs a co-ordinated response that enables government financing, bank lending and capital market instruments to help drive the recovery. Without functioning capital markets, the bounce-back will undoubtedly be more protracted and potentially create other issues within the government or banking sectors. This article has outlined some of the approaches that can be taken to address this and highlighted some of the risks, but what is clear is that capital markets are needed to help finance recovery and growth.
The large diffusion of the pandemic COVID-19 generated an huge number of complications. The healthcare system has been brought to its knees, leading to a deep crisis. In this context, there is also growing concern about the capacity of the economic system to remain standing. In this respect, the first set of measures taken by the Italian government has been designed to guarantee, as much as possible, economic stability. In this regard, Italy has set up two different legislative tools:

1. **Cura Italia decree**, approved on March 16 of 2020 and became law on April 30 of 2020.
   Provisions are:
   - a reinforced intervention of the Central SME Guarantee Fund;
   - other guarantee mechanisms through Cassa Depositi e Prestiti S.p.A.;
   - a moratorium on loans and mortgages for SMEs;
   - the suspension of payments for certain production categories;
   - the extension of deadline for payments;
   - the suspension of tax duties and payments for professionals and small enterprises.

2. **Liquidity decree**, which was converted into law on June 4 of 2020.
   The arrangements are:
   - guarantees by SACE (a subsidiary belonging to the Cassa Depositi e Prestiti group), in favour of banks and with a maximum deployment of 200 bln euro with the aim of supporting employee costs, investments or working capital in factories or entrepreneurial activities based in Italy;
   - guarantees by the Central SME Guarantee Fund covering 100% of new financing for SMEs (up to 25,000 euro) and 90% for small midcaps (max 499 employees). The maximum amount guaranteed for any enterprise has been increased to 5 million euro.

* General Manager, AIFI – Italian Private Equity, Venture Capital and Private Debt Association
I. EUROPEAN UNION’S SHORT-TERM RESPONSE TO THE CORONAVIRUS PANDEMIC

The European Union has played a key role in this pandemic situation. The response has been rapid, aimed at implementing a series of measures to support countries in the fight against the upcoming crisis.

The following actions have been taken:
- the suspension for the first time of the Stability and Growth Pact;
- the possibility to use unspent resources from structural funds;
- the launch of the SURE fund to challenge unemployment;
- a new ESM credit line for direct and indirect healthcare needs;
- The €750 bln PEPP (Pandemic Emergency Purchase Programme) of the European Central Bank to purchase public and private securities;
- The activation of Escalar for scale up financing - An EIB guarantee fund.

2. SECOND PHASE – ITALIAN MEASURES

When the pandemic and the healthcare system crisis will be considered under control, it will be important to re-activate a virtuous circle that would bring private and institutional investors to recharge the investments in real economy.

In Italy, the so called Rilancio Decree has defined some important measures in this sense. Among others:
- the introduction of a new, ‘alternative’, version of PIR (saving investment schemes) with the aim of channelling resources towards alternative funds, granting a fiscal incentive for retail investors;
- a 4 billion fund that will invest in bonds or interest-bearing debt certificates of SMEs with revenues between 10 and 50 million euro that provide a share capital increase of at least 250,000 euro;
- a CDP fund, the so called Patrimonio Rilancio CDP, dedicated to businesses with annual turnover above 50 million euro. The fund will invest in convertible bonds, share capital increase and shares listed on secondary markets with the aim of supporting and relaunching the Italian economic system;
- 200 million euro of additional resources to the Support Fund for Venture Capital;
- a 20% tax credit for SMEs that suffered a loss of revenues in the period March -April 2020 and that provide a share capital increase, also through funds;
- fiscal incentives in favour of investors in innovative startups and SMEs: in particular, the deduction granted to investments, also through funds, have been increased to 50% (within “de minimis” regime and with a max investment of 100,000 euro);
- a new 500 million euro fund dedicated to technology transfer (managed by the Italian Ministry for Economic Development and ENEA).

Currently, we are working, on the one hand, on proposals to improve the content of the measures within the parliamentary path for the approval and, on the other, to
better define the implementing details within the decrees that will be set over the next months. Our aim is to ensure that those proposals will be deployed in the right way, giving the possibility to generate a stronger flow of finances for private capital funds to be efficiently directed towards startups and SMEs.

3. SECOND PHASE – EUROPEAN MEASURES

At the European level, many interventions have been planned and are starting to be implemented such as:
- Mifid II review: AIFI, in coordination with Invest Europe, has responded to a recent public consultation related to Mifid II with the aim of supporting the creation of a new category of semi-professional investors or, alternatively, to introduce a more flexible framework to define professional clients upon request;
- CRR II (Capital Requirements Regulation): there is the need to guarantee that investments made by banks in startups and SMEs through private capital funds are not considered as high risk, being subject to stronger capital requirements;
- Solvency II: monitoring the implementation of the recent introduction of a new category of ‘long-term equity investments’ with a 22% risk weight that could guarantee a stronger commitment of the insurance sector in private capital funds.
CHAPTER V
COVID-19 AND BEYOND: BUILDING A FUTURE OF SUSTAINABLE FINANCE IN THE PAN-EUROPEAN SPACE
The Western Balkans And Covid-19:
Resistance, Vulnerability, and Potential Opportunities
in the Post-Pandemic World

RICHARD GRIEVESON*

The economic fallout from the Covid-19 pandemic is severe. The global economy is facing its worst peacetime recession since the 1930s. For Central, East and South-East Europe (CESEE) as a whole, 2020 will be the worst year for economic activity since the transition recessions of the 1990s. In this context, the Western Balkan countries will not be able to avoid historically large contractions in economic activity, with a host of negative spill-overs for investment and finance in the region. Prospects for recovery from 2021 are clouded by high levels of uncertainty, with the shape and speed of the recovery set to be heavily influenced by measures taken to restrict the spread of the virus over the winter months.

While the current crisis is among the worst in recorded economic history, it is however qualitatively quite different to most other cases, including the aftermath of the 2008 global financial crisis. Then, the global economy faced a severe (dollar) liquidity shortage, and the crisis was centred on the financial sector. This time, major central banks have injected unprecedented levels of liquidity into the global economy, and so far, the financial sector is far from the worst-affected part of the economy. Naturally, this may change, but for now the crisis is largely one of the real economy. As such, with the right policy support, when the recovery arrives it should be quite strong. This crisis may not leave a long legacy like after 2008, when many economies—including in the Western Balkans—took many years to return to pre-crisis levels of economic activity.

I. QUANTIFYING THE INITIAL ECONOMIC FALLOUT

Forecasts by the Vienna Institute for International Economic Studies (wiiw) released in May 2020* show that all Western Balkan countries will face steep recessions this year. However, the range of these projected downturns is broad, from -11% in Croatia to -4% for Serbia. In 2021, wiiw projects a recovery everywhere, although also here there is also a range, from +5% in Montenegro to +3% in Bosnia and Herzegovina.

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1. For the purposes of this paper, unless otherwise stated, the Western Balkans means Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, North Macedonia and Serbia.
2. New forecasts will be released at the start of November 2020, after this paper is finalised.
In 2020, all Western Balkan countries introduced very strict domestic lockdown measures. By mid-April, Western Balkan countries had some of the highest ‘stringency’ levels in the world, according to the Oxford Blavatnik School of Government Stringency Index. This was especially the case for Serbia (85.3) and Croatia (92.9) as of April 15th. Various high frequency indicators relieved the impact of this on economic life, including google mobility data. As of mid-April, mobility in areas relevant to the economy was down by up to 50% against the baseline in parts of the Western Balkans.

With domestic lockdown measures fairly strict across the region, the key differences between Western Balkan countries in terms of the Covid-19 economic fallout came from external factors. Here, the countries more reliant on tourism and/or external trade suffered much more in 2020. Croatia, Montenegro and Albania all rely on tourism for around 20-25% of GDP (directly and indirectly), comfortably the highest levels in the whole of CESEE, and as a result their economies will suffer among the worst 2020 declines in the region. Tourism effectively collapsed in Q2 2020 due to various restrictions on international travel. Although there was some recovery in Q3 2020 as restrictions were lifted, many potential tourists are likely to have remained extremely cautious about international travel. Full-year declines for tourist nights in the Western Balkans are likely to have fallen by 50-70% in 2020 as a whole.

2. AREAS OF VULNERABILITY FOR THE WESTERN BALKANS

Even in 2021, it is unlikely that tourism will fully recovery to 2019 levels. However, this is far from the only area of vulnerability for the Western Balkan economies this year and next. For example, in general health systems in the region are quite underfunded by Western standards. This means that governments will be cautious about their impact the handle a potential second wave over the winter, and may therefore be quicker to re-introduce economically-damaging lockdown measures. Countries in the region tend to have a large share of SMEs, which may not have large cash piles to get them through a second wave and further sharp reduction in demand for weeks or months.

In addition, several countries in the region (often those with the highest tourism dependence such as Albania, Montenegro and Croatia) have high public debt loads and face a fairly elevated cost of borrowing. This will prevent them from borrowing and spending to support firms and workers to the same extent as Western Europe or some other parts of CESEE. Most countries in the Western Balkans also rely heavily on capital inflows, leaving them exposed to external funding difficulties. Remittances, net foreign direct investment inflows, and net ‘hot money’ inflows combined have av-

3. The index gives countries a score between 0 and 100 based on various Covid-related lockdown measures, including closing schools and bans on public gatherings.
eraged almost 30% of GDP for Montenegro in the last five years, and in the range of 13-20% of GDP for Serbia, Bosnia, Albania and Kosovo.

3. AREAS OF RESILIENCE FOR THE WESTERN BALKANS

Although the economic challenges are severe, it would be a mistake to become too despondent about the region’s prospects of weathering the crisis. The Western Balkan countries have several important advantages that could help them to manage the fallout and benefit when the public health situation improves and the economic recovery takes hold.

First, most countries reacted relatively quickly during the first wave, initiating strict lockdowns to stop the spread of the virus. Although one can argue that some mistakes have been made since, it is clear that as a whole the Western Balkan countries from a public health perspective have handled the crisis better than many parts of Western Europe. Death rates relative to population size from Covid-19 in Western Balkan countries are a fraction of those of countries like the UK, France, Spain and Italy.

Second, aside from tourism, the Western Balkan countries are generally not that ‘open’ by CESEE standards. Although Serbia and North Macedonia have been relatively successful in integration into European value chains over the past couple of decades, the total share of goods and services exports in their GDP remains generally in the range of 50-60% of GDP, which is well below most Central European countries (the equivalent figure for Slovakia, for example, is 92%). This means that the Western Balkan countries were not as badly affected as many other parts of Europe from the collapse in global trade this year.

Third, international support for the Western Balkans has been quite significant. This has come from various sources, including the IMF and EBRD. Both in terms of scale and speed of response, the support made available to the region this year appears to be more significant than after the 2008 global financial crisis.

4. THE WESTERN BALKANS IN THE POST-PANDEMIC GLOBAL ECONOMY

Major crises like the current pandemic tend to drive quite fundamental changes in the global economy, many of which cannot be seen in real time. It will likely be many years before we can fully understand the structural changes that the current crisis has brought about, and what this means for the Western Balkans. However, some changes already seem to be clear.

First, the state has very rapidly taken on a much more significant role in economic life. It is unlikely that this will fully be unwound after the crisis passes. In countries where there are already worries about rule of law and the independence of institu-
tions, which includes many Western Balkan countries, this is a concern. A bigger role for the state will also necessitate higher taxes in the future.

Second, the crisis is likely to drive near-shoring in Europe, with firms in countries such as Germany, Austria and Italy likely to be wary of extended supply chains. This increases the attraction for these firms to invest in CESEE, including the Western Balkans, relative to Asia. The Western Balkans may also be able to attract more investments in the services and digital spheres as a result of the current crisis.

However, while the crisis will change a lot, it is likely that many things will also look quite familiar in the post-pandemic world. It does not seem, for example, that the pandemic will make a big difference to the accession prospects of the non-EU members in the Western Balkans. Given the seemingly intractable political issues the region faces, EU accession is still many years away. As a result, the influence of Russia and China in the region is likely to remain strong, and in the case of China even grow, including in an economic and financial sense.
Deepening Sustainable Economic Integration of Western Balkans

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The socioeconomic consequences of the COVID-19 pandemic are expected to be severe for the Western Balkans. Governments are taking unprecedented measures to help people and companies in overcoming the crisis. Regional economic integration has to be a prominent part of the Western Balkans socioeconomic recovery efforts, if the region is to rebound and take full advantage of recovery measures. Developing a common regional market – based on EU standards – including those linked to the green transition and digital transformation, is essential for the Western Balkans to seize the opportunities of the new socioeconomic order that will emerge in the pandemic aftermath. Joint actions in this regard shall ascertain the Western Balkans commitment and reaffirm their credible perspective within the EU.

It is now important, more than ever, for the Western Balkans (WB) to continue deepening intra-regional economic integration towards the EU single market, as an integral part of a collective response amid the long-term social and economic challenges the region is facing. The initiative for enhanced regional cooperation by WB Leaders provided a major impetus for the development of a new regional economic integration agenda that is built upon a strong political determination, commitment and pragmatic vision. In this way, conditions for growth and sustainable development are created.

The Zagreb Declaration (EU – Western Balkans Summit, Zagreb, 6 May 2020) reiterated EU support for deepening regional economic integration as well as building on EU rules and standards, thereby bringing the region and its companies closer to the EU Internal Market. This will be achieved, among other, through the Regional Economic Area (REA), with the purpose to facilitate the economic recovery after the crisis and make the region more attractive for investment.

The outbreak of COVID-19 and associated containment measures in the Western Balkans will severely curtail growth, with a substantial GDP contraction from −9.0 to −3.0 percent in 2020. The slow recovery is expected to be in 2021, as the pandemic fades away. Specific vulnerabilities of WB economies are related to external shocks, including falling commodity prices, declines in tourism, high remittance-dependency and sig-

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significant value chain disruptions. All economies will experience significant budget deficits and liquidity issues caused by limited economic activity. The reduction in remittances will only add to the economic strain, while the economies with high dependence on the tourism sector will be severely affected due to travel restrictions and the pandemic effects, globally. Similarly, regional governments have started implementing monetary and fiscal policy measures on an unprecedented scale, expecting to mitigate the containment measures socioeconomic impact. As the region is moving from crisis management to recovery, there is a dire need to think about the future horizon. Much like the EU’s recovery plan, the regional responses should be built upon resilient, green and digital economy, with a strong focus on modern and circular economy. In light of a probable relocation of sever global supply chains, both European and our region’s governments will need to work together to protect crucial value chains while develop new ones, in close partnership with the private sector.

The MAP REA implementation process has seen some noteworthy accomplishments. The most remarkable ones are the adoption of Additional Protocol 6 on Trade in Services; the endorsement of the Regional Investment Reform Agenda and the adoption of Investment Policy Reform Action Plans; the endorsement of the Declaration on Recognition of Academic Qualifications; the signing of the Regional Roaming Agreement; the endorsement of Digital Agenda for the Western Balkans and, lastly, the successful organization of the Annual Digital Summit.

The region has continuously worked on REA deliverables for 2020. Some of them include the launch of a regional dialogue on digital skills and competences; effective implementation of Regional Roaming Agreement and preparation for Roam Like At Home regime; final phase of adoption of regionally accepted standards for negotiation of International Investment Agreements; preparation of key elements for a roadmap for EU-WB roaming charges reduction; an agreement on protocol on open access to regional infrastructure; and, lastly, setting up a Joint Information System for recognition of Academic Qualifications, among others. For all of these successes, the whole team of the Regional Cooperation Council – giving birth to the MAP REA – deserves our admiration and support in their efforts towards MAP REA 2, which is aiming to bridge the Western Balkans and EU Internal Market gap in the context of enhanced regional economic integration for 2021-2024.

This new vision for deepening regional sustainable economic integration, firmly embedded in EU’s post COVID-19 recovery efforts, could constitute an essential regional transformational tool for:

- Framing regionally coordinated efforts for the reconstruction, recovery and resilience building stages ahead us.
- Connecting the Western Balkans economies more effectively within the region and with EU.
- Shortening the time for recovery and creating conditions for sustainable growth, while strengthening the production and performance of important sectors in order to ultimately securing jobs and creating development opportunities.
• Improving socioeconomic performance, business and investment friendliness as a means for economies to recover in a green and inclusive way, by strengthening regional economic integration, enhancing intra-regional trade, boosting connectivity, attracting more investments and securing growth potential in the Western Balkans.

• Tapping into significant sustainable growth potentials of a realigned and regionalized world map of value and supply chains, and Europeanization of value chains aimed at increasing their resilience by reason of geographical proximity, existing structures and ongoing EU accession and alignment processes.

It will, therefore, be imperative for WB regional cooperation to anchored to EU’s comprehensive recovery efforts for two reasons. First and foremost, because of our region’s clear European perspective as well as substantial trade and investment links with the EU; secondly, due to the markets’ structural limitations, yet to be improved level of specialization and productivity, as well as limited participation in EU value chains.

Overall, new realities call for adjustments and socioeconomic transformation of the region, underpinning and upgrading the approach towards: Digital transformation and innovation as a backbone of regional economic integration efforts and vector of growth; building on existing crisis-oriented measures in light of Green Corridors in the WB and EU; dynamic industrial policy; countering financial market disruptions; more integrated support for SMEs through innovative partnerships and digital platforms; strengthened human capital to improve the quality of education, tackle skills mismatch and address digital upskilling needs through formal and non-formal education due to fast spread of new technologies.

The enhanced regional economic integration roadmap will be fully aligned with the European Green Deal and the forthcoming Green Agenda for the Western Balkans (GAWB), which would further strengthen regional cooperation, while unlocking the potentials of green, low carbon and circular economy of the Western Balkans.

• Building blocks and policy areas.
  o Trade.

The main objective of the trade agenda is to enable effective trade in goods and services. The new phase of regional economic integration should seek to capitalize on regulatory convergence driven by harmonisation with EU acquis and trade-promoting factors, such as geographic proximity, language, culture, and economic compatibility. In addition, special focus is put on rebuilding and strengthening regional and European value chains to tap into significant growth potential and counter-act economic consequences of COVID-19 pandemics. The way to enable this is to set up cooperation mechanisms, modelled on the ones in the European Union within the framework of CEFTA 2006, in particular Additional Protocols 5 and 6 that lay groundwork for enhanced cooperation in trade facilitation and trade in services.

The trade agenda 2021-2024 should consist of following components:
• Facilitation of trade in goods seeks to minimise cost and administrative burden
in trade in goods, to remove non-tariff barriers and achieve resource efficiency. To enable this, the parties will cooperate on harmonisation with EU health, safety and environmental requirements, as well as issues regarding conformity assessment, quality infrastructure and market surveillance for industrial and agri-food products. Moreover, given the success of the Green corridor/Green lane initiative set up with the Transport Community (TCT) Secretariat in ensuring free flow of essential goods within WB6 in the context of anti-pandemic measures, one of the main priorities will be to extend it to all trade in goods.

- Facilitation of trade in services aims at enabling smooth supply of services within the region by removing information, legal and administrative barriers. This entails extending existing commitments on market access and national treatment, but also setting up other mechanisms, modelled on EU services legislation, such as recognition of authorisation schemes in selected sectors, harmonising service recipients’ rights, development of information and transparency tools such as Regulatory Database, and administrative cooperation among others.

- Electronic commerce agenda seeks to remove key barriers for the digital trade of goods, services, and digital products. Development of electronic commerce plays crucial role in ensuring supply of goods and services to people in businesses, when traditional trade based on physical contact of people is disabled. Therefore, to ensure traditional flows of trade faced with restrictions introduced to fight the pandemics, promote modern forms of trade based on technology and enable links EU Digital Single Market, the e-commerce agenda will be considered as one of the key priorities.

- Trade related activities include addressing a number of areas that can further support regional trade and, therefore, regional economic integration. To enable a more effective implementation of all commitments, CEFTA will reform its dispute settlement rules and related procedures, thus enhancing the work on non-tariff measures. System of Electronic Exchange of Data (SEED) will evolve to facilitate paperless trade and cooperation between competent authorities involved in both trade in goods and services, in line with the functions of the Internal Market Information System in the European Union.

0 Investment.

The biggest challenge the Western Balkan economies face at the moment is how to perform properly to prevent the economic downturn from transferring into a prolonged depression. With negative economic forecasts underway, the region will require much faster economic growth to be able to cope with the upcoming negative impact of the pandemic. To keep pace with the EU, the region must secure the quality and sustainable investments in export-oriented sectors, while securing access to finance for SMEs and financial market development. Given the comprehensive investment efforts required to fuel the recovery and modernise the economies, the robust EU economic and investment plan for the region announced for this autumn can be a decisive contribution towards restarting the economies, while improving their competitiveness, to better connect them within the region and with the EU. The post-
pandemic actions will require major adjustments in industrialised and emerging economies in the medium term with the focus on the stabilisation of productive sectors and their restructuring to create more resilient systems and support recovery and growth. In this endeavour, intermediary organizations, namely Chambers of Economy and Investment Promotion Agencies, should be involved in drawing up proposed economic reforms.

The agenda should be developed around the following main building blocks:

- **Investment Policy Reforms.**
  Ensuring compatibility of investment policy with the EU investment regime and sustainable development to make sure that economic development is in compliance with social and environmental standards. Possible ways for furthering in this area could entail regional discussions towards one set of intraregional BITs and a more coordinated approach towards prospective WB intra EU BITs. Following relevant actions could be foreseen in the area improvement of business establishment procedures and policies; deepening of ongoing reforms identified in IRAPs, including e.g. expatriate work permits, incentives related cost-benefit analysis, improving standards for investor as well as protection in domestic legislation.

  The pandemic shed new light on the importance of preserving strategic industries which could be at risk as a consequence to the current economic disruptions. Since Western Balkans is moving towards deepened regional economic cooperation and a single investment space, developing harmonised screening mechanisms for the economies of the region – as a tool for more balanced foreign investments in specific sectors, could also be initiated. The region needs also reforms in additional policy areas relevant for the investment agenda that could help regional economic development and alignment with EU standards such as internationalization of SMEs, building stronger connection among regional value chains, and continuing work on Smart Specialisation Strategies (S3). The pandemic will also cause FDI to decrease due to reduced economic activity, and these impacts will be concentrated in cyclical industries and service sectors the most. Efforts in current crisis situation should focus on the retention of existing foreign investors, and preservation of supply chains connecting foreign and domestic suppliers. In the long term, the region should focus on attracting FDI in export-oriented sectors and explore expansion opportunities of existing investments in WB economies.

- **Investment Promotion.**
  With an objective of not only attracting FDI but also retaining them in the region, it is important to continue with coordinated joint Promotion of the Western Balkans as a single investment destination. Economy-level outreach activities for economy value propositions can be prospectively expanded and replicated to the region as a whole; the joint investment promotion initiative for the region (JIPI) can be deepened by building on established platforms of the first phase, e.g. identify specific areas for cooperation, and sign memoranda of understanding. Investment promotion
should lead to the development of international branding and joint value propositions with selected target sectors for the region as a whole. The region should develop mid- to long-term regional investment strategies aimed at capturing the latest technological and process developments in manufacturing to increase competitiveness for investment which will lead to the development and promotion of regional value chains in selected target sectors (e.g. tourism, automotive, IT) as a basis for targeted investor outreach campaigns to unlock these value chains. Fractional realignment of value and supply chains in order to build more resilient systems resistant to immediate collapses when supply and demand chain is endangered will be in focus. The WB economies could gain from the disruptions at the world market and use the opportunity to attract more EU investors whose production could be reallocated to the closer regions, such as the WB region.

- **Industrial Development.**

  The economic lockdown will hit the economies that are heavily dependent on tourism sector the hardest, including those in the WB region. While the supply chains are disrupted, industrial production, in particular the manufacturing sector has been diminished by the closed borders. Most WB economies are net importers of food, so agriculture is one of the sectors to be the most negatively impacted by the crisis. Keeping in mind that the EU is the biggest trade and investment partner of the WB region and that WB economies heavily depend on the EU economic misfortunes and recession; value and supply chains must be re-established, and investments acquired in strategic value chains. With a view to respond properly to the current situation, the dynamic industrial policy should be introduced, support for SMEs in both access to markets and finance provided, and more private investment to help high-potential enterprises grow attracted.

  In addition to measures under investment policy and promotion, the region should consider redesigning existing industrial and SMEs strategies or at least addressing the current impact of the pandemic through more support to SMEs in upcoming policies. Even though some of the strategies are recently adopted, due consideration should be given to their amendments in light of recent developments in economic and business sectors, especially having in mind economies of the region which are still trade dependant or their economy is relying on one strategic sector.

  In support of private sector-led industrial development and in order to shift the primary focus on innovation-driven measures to support competitiveness through digitalisation and innovation, as suggested by WB6 Chamber Investment Forum, a new policy approach is needed. It would encourage WB economies to become an integral part of EU economic system, able to contribute to its growth and development rather than serving as trading partners. Industrial-related activities could be directed towards inclusive enlargement so as to strengthen and provide for support mechanism to target economic operators in line with practices in EU Member States.

  In terms of specific industries and sectors particularly fit for a stronger and more coordinated regional approach, tourism constitutes a significant part of the economies of the Western Balkans. The complete standstill of tourism activity is af-
fecting not only tourism industry but also the economy at large. The industry is dominated by micro and small enterprises, which are extremely vulnerable during times of crisis, as the case of COVID-19 outbreak showed.

In order to alleviate the pressure on SMEs and develop tailored measures for the tourism industry, WB economies need to make a policy shift towards fully integrating sustainable tourism practices into the development and management strategies and enable continuous improvement of tourism industry digital skills.

Industrial development would continue work on sectoral aspects of economy and expand on prospective additional sectors of regional relevance (i.e. ICT, green energy, food tech) can be developed as part of the consultation process.

- Financial Markets development.
  Financial liquidity for MSMEs and stronger cooperation among financial authorities, including international players, are crucial in the post-pandemic recovery phase. Development and diversification of financial markets in WB economies needs to boost investment and widen access to finance in WB through: (i) deepening of financial markets; (ii) cooperation among WB economies — exchanging information, sharing lessons, and addressing common challenges — to aid convergence of WB to EU income levels; and (iii) integrating select segments of the financial markets within WB economies and with the EU to benefit from increased market scale and larger potential investee and investor base. In order to facilitate development and address the risks of new FinTech products and business models (e.g. peer2peer lending, crowdfunding, digital credit), it could be beneficial to think of a regional approach towards the further development of FinTech products. With a view of the challenges related to ensuring financial liquidity of MSMEs, more integrated and coordinated support mechanisms can be prospectively examined, including those related to revolving funds and financial guarantee instruments for the loans to MSMEs.

- Human capital development.
  The Human capital development agenda can be developed around the following building blocks:

  - Removal of obstacles to recognition of professional qualifications.
    The Western Balkan economies can explore further possibilities to conclude mutual recognition agreements in other sectors and professions of mutual interest; introduce a general system of recognition of all professional qualifications in line with the EU Directive on Regulated Professions; and open negotiations on professions under specific EU regulation. Furthermore, measures to include the Western Balkans into formal groups on professional qualifications within EU in the capacity of observers, as well as inclusion of WB economies in a specific status of observer into the Internal Market Information System (IMI), can be pursued.

  - Removal of obstacles to recognition of academic qualifications.
    The main objective is an Open Western Balkan Education Area fully integrated
into the European Education Area. With the implementation of the Western Balkans Declaration on Recognition of Academic Qualifications, new possibilities to widen the removal of obstacles of academic qualifications arise. Several proposals and initiatives should be considered:

i. A procedure for fast track recognition of higher education qualifications.

ii. An agreement on recognition of primary, secondary including professional, VET qualifications may be initiated.

iii. An agreement on recognition of non-formal and formal learning.

iv. An agreement on Access to Study in the Western Balkans to treat students, researchers and professors equally to national students, researchers and professors when studying, carrying out research or teaching in the national system with regards to tuition fees, right to accommodation, food, and employment.

v. The Protocol on “fast-track” issuing of visa, residence and working permits for students, researchers and professors from the WB region should reflect the similar EU model put in place for all EU citizens.

vi. An agreement on Access to Study between the EU and the Western Balkans to treat WB students, researchers and professors the same as national students, researchers and professors when studying, carrying out research or teaching in the national system with regards to tuition fee, right to accommodation, food, and employment (e.g. Austria has this for all students coming from old Austro-Hungarian Empire regardless of whether they are from EU member states or not).

vii. WB-EU agreement for equal treatment of WB students, researchers and professors when studying, carrying out research or teaching in the national system with regards to tuition fee, right to accommodation, food, and employment (not as Third Citizens but as EU citizens or closer to EU citizens than other Third Citizens).

viii. An agenda for WB to become part of ERASMUS+ programme by 2025 and announcing the opening of the European Universities Initiative to the Western Balkan Universities.

ix. Mobility related activities – regional ID travel; residence and working permits; access to health insurance and health sector; transferability of social security rights (employment and pension rights), equal opportunities and access to the labour market; fair working conditions; social protection and inclusion.

• Open Science.

The post-COVID reality will require a new thinking, based on open sharing of knowledge and information for introduction of innovative policy measures that contribute to the development of the region in line with the EU’s forthcoming Horizon Europe programme and Innovation Agenda for the Western Balkans. The agenda should be developed around two main pillars: Open science and Open innovation ecosystems.

Open Science – open access, open data & open resources – is one of the key instruments for making science more responsive to the needs of society. Major international
organisations, including the EU and UNESCO, have called on governments to enhance scientific cooperation, knowledge and data sharing, which are critically important, especially in light of the COVID-19 pandemic to minimise human and socio-economic losses. The WB economies have been actively participating in the National Point of Reference Open Science meetings at the EU level, while a part of the EU’s report on Open Science also includes the WB economies.

- Open innovation ecosystem.

The region’s economic transformation from low-skill labour and low technology based industries is possible only if there is a shift in innovation policies. The EC is developing a science and innovation agenda to be discussed with Member States and partners for the next five-year period, taking into consideration regional differences. Based on this, the EC also plans to structure an Innovation Agenda for the Western Balkans along political, regional and thematic components. The key element of political component is the full association to the next Framework Programme, “Horizon Europe”.

The regional component is likely to focus on innovation financing (EIC, Invest EU), Widening (Horizon Europe, EIT); Education capacity building (MSCA RISE, ERASMUS+); link to regionalisation priorities (SME investment, deepening Economic Union), while Thematic component should be in line with emerging challenges (Green Agenda, Digitalisation, Circular Economy, An Economy for the people), Horizon Europe missions & SDGs and traditional WB priorities (Agriculture, Food, Manufacturing, Health and Tourism).

In this respect, the activities could include regional upscaling of successful innovation fund mechanisms and the prospective establishment of a regional innovation fund as a financial and technical instrument designed to support ideas and initiatives that respond to region’s economic needs and encourage creation of new high-skill labour jobs; co-design of innovative policy tools to assist policy-makers develop more effective innovation policies; open innovation hubs to include various actors for free circulation of knowledge; networking of technology transfer offices and experienced teams to commercially exploit the region’s research findings; promoting regional cooperation among businesses and innovation leaders as a powerful tool for economic recovery and create a more robust business environment in the post-pandemic reality including strengthening the role of women in STEM in the WB economies.

- Digital transformation.

New social and virtual reality caused by the pandemic has forced policy makers to re-think policy-making processes, businesses to adjust to new realities and citizens to acquire new skills to cope with emerging challenges and realities. Investing in digital capacities, infrastructure and technologies should be a key element of the recovery efforts of WB economies, at the same time anchored with EU recovery efforts. WB region should support effective implementation of the Digital Agenda for WB and alignment with to EU Digital Single Market (DSM) principles and practices and rel-
evant European Strategies, i.e. European Digital Strategy, EU Data Strategy, and Gigabyte Society.

The agenda may be developed around the following main building blocks:

- **Digital infrastructure and connectivity.**
  In order to provide seamless digital services and improve regional connectivity, robust, fast and reliable broadband networks are needed. Therefore, the following actions should be considered: further harmonization with respective EU acquis; expediting broadband deployment and boosting digital infrastructure; strengthening WB BCOs capacities through networking and peer to peer learning, integrating further in EU BCO network; expanding and promoting investment possibilities through feasible and viable business models as well as through increased uptake of WBIF funds; promoting infrastructure sharing; supporting implementation of regional initiatives, such as Balkan Digital Highway Initiative, as well as reaching out to Local Government Authorities to support broadband development, in particular in rural areas. Rise in remote work and the need for remote health services and other e-services show that 5G spectrum policy harmonisation and deployment of 5G networks in line with EU practices remains a priority. Establish free roaming region and ensure inclusive and transparent cooperation with all stakeholders in addressing challenges and needs as well as work toward smooth alignment with EU roaming free space rules and practices through the implementation of the roadmap to lower roaming costs between EU-WB based on a transparent and inclusive process among all actors remains a priority.

- **Digital skills and competence.**
  The need to possess digital skills, from basic to advanced, has proliferated further due to rapid digitalization and spread of new technologies. A holistic approach in addressing upskilling through multi-faceted regional interventions, including policy formulation and preparation of long-term strategic framework(s), formalisation of long-term strategic alliances among policy makers, private sector, academia and international partners, introduction of tailor made actions and interventions based on market needs, regional initiatives to enable digital skill upscaling at large should be formalized. Region should build and pursue and agree on concrete actions around the existing regional proposals to upgrade digital skills and other digital competence (i.e. Center for Forth Industrial Revolution-C4IR, Cybersecurity Center, Digital Transformation Academy)

- **Trustworthy regional space.**
  Ensuring further implementation of interoperability across the WB region is needed, including harmonization of EU acquis (i.e. eIDAS, Single Digital Gateway, EIF), further aligning with EU best practices, embarking on regional initiatives to enable better interoperable environment/systems/databases/platforms, facilitating e-service delivery, developing where feasible e-Health, eProcurement, eGovernment as
well as other key e-services, adopting common standards for statistical data sharing and exchange, including data sharing in agriculture. This would enhance recognition of electronic trust services and allow secured exchange of data online and offline. With rapid digitalization of public services due consideration should be given to proper enforcement of cross-border personal data protection.

- Conducive and competitive environment for innovative businesses.
  The WB Annual Digital Summit should be considered as a Government-Business-Civil society permanent collaborative process to discuss and agree on regional initiatives to address new challenges, such as Artificial Intelligence, Blockchain, IoT, High-performance computing, smart cities, cloud initiatives and open data through cloud based platforms for wider use, support actions/investment in digital technologies and capacities, facilitate participation to the possible extent in different EU platforms, working groups, as well as programs. Support to start-ups, innovative businesses, and digital hubs to develop their capacities should be considered as well as challenges connected with fourth industrial revolution and digitalization of businesses.

- Resilient cyber space.
  Spread of high tech and digitalization reinforces the need to develop/adjust/upgrade and ensure proper implementation of cybersecurity strategies, to follow harmonization and proper reinforcement of legal framework with EU acquis, equip national competent authorities with required capacities and designate single points of contact as requested by the Network and Information Security (NIS) Directive. As per other provisions of this Directive, the region urgently needs to embark in programmes and initiatives that support the establishment of functional national and other Computer Security Incidents Response Teams (CSIRTs), enable their networking at national and regional level, enhance cooperation with EU CSIRTs, ENISA and other relevant organizations, strengthen CSIRTs capabilities, including adequate equipment, facilitate strategic cooperation and exchange information.
Biographies

WEBINAR N. 1

Introduction

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Founder of MIB Trieste School of Management. Professor of Business Strategy at the University of Trieste. President of ASFOR (Associazione Italiana per la Formazione Manageriale) since 2010. Member of the Board at CEEMAN. Italian representative for the EQUAL European association. In the field of his scientific research he has published various works on the organizational and management aspects. He is currently dealing with leadership issues. Alongside academic and research activities, Nanut has covered several important roles in different Italian companies as Friulia Spa and the Friulia Factor and L.A. Life (Allianz Group).
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PAOLO GARONNA
Secretary General Italian Banking Insurance and Finance Federation FeBAF

Paolo Garonna is the Secretary General of the Italian Banking, Insurance and Finance Federation since October 2012. Professor of Political Economy at the Luiss Guido Carli University of Rome, he was Director General of the Association of Italian Insurers (ANIA) and Chief Economist of Confindustria. Professor Garonna was Director General of the Italian National Institute of Statistics (ISTAT) from 1992 to 1999, and, from 1989 to 1992, Deputy Director for Labor, Social Affairs and Education at the Organization for Economic Co-operation and Development (OECD) in Paris. From 1999 to 2009 he was Deputy Executive Secretary, and Executive Secretary ad interim, of the United Nations Economic Commission for Europe (UNECE) in Geneva. He carried out research in America as Fulbright scholar, and in Cambridge, Great Britain, and taught in several Universities in Italy and abroad. He has published a considerable number of books and essays in Applied Economics, Statistics and Finance.

Key-note Speaker:

GABRIELE GALATERI DI GENOLA
Chairman, Generali

Gabriele Galateri di Genola was appointed Chairman of Assicurazioni Generali on 8 April 2011. He holds a degree in Law and an MBA from Columbia University. He was appointed CEO of IFIL in 1986 and CEO and General Manager of IFI in 1993;
subsequently, in 2002, he was appointed CEO of FIAT. From 2003 to June 2007 he was Chairman of the Board of Directors of Mediobanca. From 2003 to 2010 he was Vice-Chairman and a member of the Board of Directors of Generali. From 2007 to 2011 he was Chairman of Telecom Italia SpA, where he was a member of the Board of Directors until April 2014.

ROBERTO ANTONIONE
Secretary General at the Central European Initiative – Executive Secretariat

Mr. Antonione has obtained a degree in medicine and surgery at the University of Milan. He was in private practice as a dentist until 2001. In 2001, he began a parliamentary career, and carried out national tasks, as Senator of the Republic and Undersecretary of State at the Ministry of Foreign Affairs for Europe, until 2006. Later, until 2008, he worked as Deputy Chairman of the Parliamentary Group and member of the Foreign Affairs Committee, before becoming Member of the Chamber of Deputies and Group leader of the Foreign Affairs Committee. From 2008 to 2013 he has also worked as Secretary of the Parliamentary Delegation to the Council of Europe and Head of the Italian Delegation to the Central European Initiative Parliamentary Assembly.

Roberto Antonione took over many tasks and activities in local authorities. He became Town Councilor in Trieste in 1992, until 1993, and again from 2011 to 2016. In the period 1993-1998, he held office as Regional Councilor of the Friuli Venezia Giulia Region (FVG) (‘94-’01), Vice President of the Regional Council and Councilor for Crafts, work, cooperation and sport (‘94 -’95) and President of the Regional Council (‘96 -’98). From 1998 to 2001 he has been President of the Regional Government.

Finally, he currently is Secretary General at the Central European Initiative (CEI), where he has been President of the International Expert Group for the reform of the CEI (2010), Special Advisor to the CEI Secretary General since 2015, and Chief Operating Officer at the Central European Initiative – Executive Secretariat (2018).
ENZO QUATTROCIOCCHI
Secretary General, European Bank for Reconstruction and Development

Enzo Quattrociocche is the EBRD’s Secretary General. He is a member of the Bank’s Executive Committee – together with the President, Vice Presidents, and other senior management representatives. The Secretary General reports to the President and works with the Board of Governors and the Board of Directors. The Secretary General engages in policy dialogue with the Bank’s shareholders, deals with requests for membership, and represents the Bank in international fora as appropriate. Enzo Quattrociocche worked for 12 years as Director for Italy on the Bank’s Board of Directors before resigning in August 2008. After a brief period in Italy, during which he worked on a project for the Italian Ministry of Economy and Finance, he took up his role as Secretary General in February 2009. During his period as Board Director, Mr Quattrociocche served as Chairman of three of the four Board Committees: The Budget and Administrative Affairs Committee; the Financial and Operations Policies Committee; the Board Steering Group (which coordinates the work of the two named committees and the Audit Committee). Beyond his years as a Board Director at the Bank, Mr Quattrociocche has held management positions at the Italian Ministry of Economy and Finance – as Division Chief for IFIs and as Director General – and has worked as an official in the Executive Board of the IMF. In 2015, Enzo Quattrociocche was awarded the highly esteemed honour of the Italian Decoration of “Grande Ufficiale, Order of the Stella d’ Italia” bestowed on him by the President of the Italian Republic for his services to the Italian Government over the past 20 years.
RICK WATSON
Managing Director and Head of Capital Markets, Events and Membership, Association for Financial Markets in Europe

Rick Watson is Managing Director and Head of Capital Markets, Events and Membership at AFME, the Association for Financial Markets in Europe. In his Capital Markets role, he leads staff whose member committees include all the main fixed income and equities-related cash products across Europe, AFME’s growth-related initiatives, as well as co-leads AFME’s investor and corporate relationships. In Events and Membership, he focuses on member outreach including AFME’s broad range of over 35 events which assists members and others with capital markets education, networking and support for advocacy. He is on AFME’s Senior Management Team.

Previously, Mr. Watson was Managing Director, Structured Finance, for FGIC UK Limited. Prior to joining FGIC, Rick held positions as head of securitization origination at HSBC Bank plc and Bear Stearns in London, and before then worked at UBS Limited, Morgan Stanley and Freddie Mac. Mr Watson received an MBA from the Fuqua School of Business at Duke University. In September 2013 he was appointed to the EIOPA Insurance and Reinsurance Stakeholder Group and reappointed in 2016. In January 2006, he co-edited the Euromoney Books' publication “Asset Securitization and Synthetic Structures: Innovation in the European Credit Markets”.
WEBINAR N. 2

PIERFRANCESCO GAGGI
Head of European and International Relations, Italian Banking Association

Pierfrancesco Gaggi works in Rome at Associazione Bancaria Italiana – ABI, where he heads the Unit dedicated to the relations with EU Associations and the International Affairs. Following an experience in BNL (now BNP BNL), he joined in 1985 ABI, initially at the Economic Researches Dept. and after some years dedicating to payment systems setting up, among the other achievements, the Italian debit card scheme). After a long period serving as Chair of the Payment Systems Committee of the European Banking Federation (EBF) and as member of the European Payments Council Plenary and Coordination Committee, in 2011, Pierfrancesco has been appointed at ABI head of the International Relations Department, maintaining the role of Chairman of Consortium ABI Lab, the think tank of ABI on cybersecurity and innovation for banks: in this position, he is currently Co-Chairman of the Italian Financial Sector CERT (CERTFin). He also heads the Association of Italian banks participating to the SWIFT community. He is married and has 2 boys of 25 and 26.

SAFET KOZAREVIĆ
PhD Professor at Faculty of Economics, University of Tuzla

Safet Kozarević holds the rank of Full Professor at the Faculty of Economics, University of Tuzla, and in period 2010-2016 he was the Dean of the Faculty. His teaching and research fields are focused to Risk Management, Insurance and Quantitative Economics. In academic 2007-2008, Dr. Kozarević was a Fulbright Scholar at the De-
department of Risk, Insurance and Healthcare Management at the Fox School of Business, Temple University, Philadelphia. As visiting professor, he gave lectures at several universities in the US, Italy, Czech Republic, Spain as well as several universities from BiH and the region. He was an editor of the Economic review journal between 2011-2015.

SPIRO BRUMBULLI
Secretary General of the Albanian Association of Banks

Mr. Brumbulli holds, since April 2016, the position of the Secretary General of the Albanian Association of Banks. Prior to his appointment with AAB, he served as Director of Cabinet of the Minister of Finance. He has a long, proficient and successful carrier in the banking industry and academic sector. During his 12-year career in the banking sector he has been in leading positions at the National Commercial Bank (Tirana and Kosovo), as well as at the National Bank of Greece (NBG Bank). For many years, he was a professor at the Faculty of Economics at the University of Tirana, while in 2011 he held the post of Rector at Tirana Business University (TBU) and Dean of the Faculty of Business Administration at this university.

Mr. Brumbulli holds the title of Doctor of Science in Economics.

STANISLAVA ZADRAVEC
Secretary General of the Slovenian Banking Association

Stanislava Zadravec Caprirolo is, since July 2017 Director of the Bank Association of Slovenia and Member of Executive Board of EBF. From April 2010 to April 2016
she was Vice Governor of the Bank of Slovenia, which is responsible authority also for banking supervision and financial stability. She was a Member of SSM ECB Supervisory Board, nonvoting Member of ESRB, Member of National Systemic Risk Board, Member of ECB Ethics Framework TF and member of EBA. In the period of April 2016 to July 2017 she was Strategic Adviser to the Governor of the Bank of Slovenia and Chief Compliance Officer.

She has 30 years of working experience. She was Director General of Treasury of the Ministry of Finance (2005 – 2009), from 1998 to 2005 she was State Undersecretary at the Ministry of Finance. During the period of 2003 to 2009 she was also a Member of EFC T-Bills and Bonds Working Group. She also has short term working experience in the World Bank. She started her career in 1989 in the Central Bank of the Republic of Slovenia.

She was member of Supervisory boards of two banks, member of different national governmental and other strategic or policy making working bodies as well as member of an expert group on public finance, participating in different forms of consultancy activities in the CEE and North Africa region (including for Regional Center for Excellence in Finance and IMF). She holds a Master degree in International Affairs (Economic Policy Management), Columbia University, New York and Bachelor degree in Law, Ljubljana University.

Vladimir Vasić
Secretary General of the Serbian Banking Association

Mr Vladimir Vasić has over 15 years of professional experience in the financial and private sectors, including the managing positions he has held in several banks, insurance companies, and an investment fund management company. He graduated from the Faculty of Economics at the University of Belgrade, Department of Banking, Finance and Insurance, and has since attended numerous domestic and international courses on planning and strategic decision-making, credit and other risks, as well as on managing projects, teams, quality, changes, etc.

During his career, Mr Vasić was, inter alia, professionally engaged in general, business related, operational support; he dealt with tasks related to coordination and control of branch office operations; he worked on strategic planning and project management; he was a member of the risk committee and a due diligence team, authorised and responsible for managing project portfolios and dealing with key changes.
Additionally, he carried out activities related to operational risks and activities concerning AML and compliance, managing projects for growth of competition, performance and quality of the bank’s operations, and advisory activities aimed at the strategic improvement of financial performance.

WEBINAR N. 3

Michele Morganti
Senior Equity Strategist and Head of the Insurance and Asset Management Research, Generali Insurance Asset Management S.p.A. Società di gestione del risparmio

Michele Morganti is Equity Strategist and Head of Insurance & AM Research at Generali Insurance Asset management. 

From 2008 to 2013 he was Equity Strategist and Fund Manager of 7 equity funds (third Party institutional clients -pension funds with different benchmarks and geographical allocation).

He was in charge of the tactical asset allocation and stock selection of the funds and coordinator of the stock model portfolio of the equity team.

Michele has been regularly invited as a speaker at several GIE international events and internal conferences in his capacity as Market Strategist.

Until mid-2015 he was a member of the Investment Committee at BSI (Banca Svizzera Italiana of Lugano).

From 1991 to 2000 he was Head of Bottom-up Research and Equity Strategy, as well as Internal Consultant for M&A deals at INA (Istituto Nazionale delle Assicurazioni) based in Rome.

Michele holds a Degree cum laude in Economics and Finance from the University “La Sapienza” of Rome.
DARIO FOCARELLI
*General Manager, ANIA*

Dario Focarelli is Director General of ANIA (Italian Association of insurance firms) and Member of the Executive Committee of Insurance Europe since September 2012. Since 2004 to 2012 he was Director of the Economics and Finance Dept and Chief Economist of ANIA. Prior to that he was Deputy Director within the Bank of Italy Research Dept.

From 2011 to 2015 he was Member of the Advisory Scientific Committee of the ESRB a body of the European System of Financial Supervision. Previously he was member of several Board or working group of international organization, including Member of the Insurance and Reinsurance Stakeholder Group of the EIOPA, and Member of the Consultative Panel of experts from the insurance industry, and users and consumers (CEIOPS).

He has a degree cum laude and a Ph.D. in Statistics and Actuarial Sciences at “La Sapienza” University, Rome and is Visiting Professor, Actuarial and Financial Modelling for Solvency II, Catholic University, Milan and Adjunct Professor, “Tanaka Business School”, Imperial College London. He is also Senior Fellow of Luiss SEP (School of European Political Economy) in Rome.

He published extensively in referred journals, including the American Economic Review, the Journal of Monetary Economics, the Journal of Business, the Journal of Money, Credit and Banking, the Journal of Banking and Finance.

SAFET KOZAREVIĆ
*PhD Professor at Faculty of Economics, University of Tuzla*

Safet Kozarević holds the rank of Full Professor at the Faculty of Economics, University of Tuzla, and in period 2010-2016 he was the Dean of the Faculty. His teaching and
research fields are focused to Risk Management, Insurance and Quantitative Economics. In academic 2007-2008, Dr. Kozarević was a Fulbright Scholar at the Department of Risk, Insurance and Healthcare Management at the Fox School of Business, Temple University, Philadelphia. As visiting professor, he gave lectures at several universities in the US, Italy, Czech Republic, Spain as well as several universities from BiH and the region. He was an editor of the Economic review journal between 2011-2015.

DARKO BLAZHEVSKI
Head of Research and Development Unit, Insurance Supervision Agency (Macedonia)

Darko Blazhevski joined the Insurance Supervision Agency in April 2010 at the position Head of R&D. Previously, he used to work in two commercial banks on different positions, as well as in the Public debt management department in the Ministry of finance as an advisor. In 2017, he was engaged as a short-term consultant in the World Bank, Washington. Also, since September 2017 he has become member of the Council for Advancement and Oversight of the Audit of the Republic of Macedonia. He has earned his bachelor’s degree in financial management and graduated from monetary economics at the state university Sts. Cyril and Methodius, Skopje. In 2014, he completed executive MBA in Finance with focus on ERM in insurance companies at the City College, Thessaloniki, affiliated studies from the University of Sheffield. In 2018, he earned a PhD in insurance with focus on insurance schemes for catastrophe risks at the state university St. Kliment Ohridski, Bitola. He attended numerous training in the field of finance and insurance. In 2006 he attended 6 weeks training for corporate governance and shareholders' rights, at the Georgetown University, USA. He has ACI Dealing Certificate and possess investor adviser license from the Macedonian SEC.
LUCIANO CIRINÀ  
*Generali Austria, CEE & Russia Regional Officer*

Based in Prague, Luciano Cirinà, Austria, CEE & Russia Regional Officer and Chief Executive Officer of Generali CEE Holding B.V., is responsible for the Generali Group’s business activities in 13 countries in the region. Since May 2016, he is also member of the Generali Group Management Committee. During his more than 30 years career within the Generali Group he held different top managerial positions. Before moving to Prague in 2013, Luciano Cirinà served as CEO Austria from 2006 to 2013. He was also elected President of the Austrian Insurance Association in 2012. From 2005 to 2006 he was Area Manager at the Company Head Office in Trieste, Italy, overseeing activities in Austria, Central and Eastern Europe, Greece, Tunisia and the Middle East. Prior to that, from 1996 to 2004 he served as Head of the Corporate Risks Division for Austria and CEE countries in Vienna. His career with Generali Group began in 1989 when he joined Deutscher Lloyd in Munich as an Underwriter and later became Head of Team. He graduated in Business Administration from the University of Trieste in 1988.

SAMI MAZREKU  
*Insurance Association of Kosovo*

Sami Mazreku started his professional career as Intern at an Insurance Company, in Dukagjini. In 2005. He later became Intern in the sales sector at the Insurance Association of Kosova, from 2006 to 2015, where he is currently Executive Director, after having occupied here the positions of Chief Financial Officer and Chief of Legal Officer, until January 2018.
With regard to his education qualifications, he has obtained a bachelor’s degree of Law at the Dardania University, in 2011; in 2015, he has completed a Master in Entrepreneurship Management. Sami Mazreku also obtained a PhD in Public Communication, Administration and Technology, at UNIBIT in February 2020, and he is currently attending a Master of Law at the Iliria University.

Hrvoje Pauković
Managing Director, Croatian Insurance Bureau, Zagreb

Hrvoje Pauković has been the Managing Director of the Croatian Insurance Bureau since 2007. After graduating from the Faculty of Law in Rijeka, where he earned his Master’s degree in law at the postgraduate studies “Law of International Trade, Transport and Insurance”, he began his career as an attorney assistant. He started his insurance career in 2001 at the largest Croatian insurance company Croatia osiguranje d.d. and was appointed Manager of Legal, Personnel and General Affairs in 2004. He also holds an Insurance Degree from St. John’s University, School of Insurance, New York, USA; he passed his Bar Exam, gained the qualification of an authorized stockbroker and of a commercial mediator. He is a guest lecturer on Faculty of Law in Zagreb and Rijeka, and lecturer on University College Effectus for Law and Finance in Zagreb. He is a member of the Executive Committee of Insurance Europe, the Management Committee and Vice President of the Council of Bureaux (2014 – 2017), and member of the Management Committee of the Institute for European Traffic Law (IETL). He is a member of the Executive Committee of the Croatian Employers’ Association, the Financial Business Association and the Working Group for implementation and monitoring of the National Road Safety Program (Croatian Ministry of the Interior). He is the President of the Croatian Association for Insurance Law, national branch of AIDA International. During his career he published frequently and held numerous presentations on domestic and international conferences.
WEBINAR N. 4

JIM TURNBULL
Deputy Director, Capital Markets Development (LC2), EBRD

Jim Turnbull joined EBRD in 2011 and is Deputy Director of Capital Markets Development team. He has over 30 years’ experience in investment banking, pensions and funds management covering debt and equity portfolios, foreign exchange, fixed income, derivatives and treasury management in both emerging and developed markets.

Jim has managed capital market development projects in over 30 countries and has written several technical papers on aspects of local capital market development and financial stability. Jim has a B.Com from University of New South Wales, Sydney, Australia.

THIERRY CLARKE
CEO of InvestorConnected

Thierry Clarke is a successful and multi-faceted entrepreneur, business developer and consultant. He is the founder and CEO of InvestorConnected, a company that provides technology and consultancy services for the investment industry. With over 15 years’ experience in the Investment Management industry, he has raised billions of dollars of investment in his career. Starting from zero, he built a previous business to assets in excess of $1 billion and has advised start-ups, scale-ups and even international governments on their finances. Thierry has worked as a consultant for the EBRD and European Commission on a number of investment industry projects, in-
including a cross regional study of dormant securities accounts; how to improve the institutional investment environment in Lithuania; two other dormant account projects and a study of fixed income transaction cost across the Western Balkans.

ANNA GERVASONI  
*General Manager – AIFI*

Graduated in Economics with honors at Bocconi University, where she was Professor of Corporate Finance for SME’s until 2000. Chief Executive of AIFI – Italian Private Equity, Venture Capital and Private Debt Association, and also full Professor of Corporate Finance at LIUC Cattaneo University, she is Director of the Master Degree in Merchant Banking and Private Capital and of the Center for Development and Innovation of LIUC Business School. She chairs the Scientific Committee of the Private Equity Monitor – PEM Observatory and the Venture Capital Monitor – VEM Observatory, active in the same University. She is independent Director of Banca Generali SpA, Generfid SpA, LU-VE SpA and Sol SpA. She is member of Advisory Committee of Borsa Italiana.

PETER TABAK  
*Lead Economist European Bank for Reconstruction and Development*

Peter Tabak is Regional Lead Economist for the Western Balkans at the Economics, Policy & Governance department at EBRD, based in Belgrade. Before taking up his present role, he worked on financial market development within the EBRD’s Local Currency and Capital Markets Initiative. Earlier he was Head of Financial Stability
at the National Bank of Hungary, being responsible for macroprudential regulation and analysis of the Hungarian financial system, including stress testing of banks. Peter also worked in senior economic policy roles at the Prime Minister’s Office and the Ministry of Finance in Hungary.

A Hungarian national, Peter graduated from the Budapest University of Economic Sciences in Finance and Economic Theory. He also holds an MBA from INSEAD, France.

WEBINAR N. 5

FEDERICA SEGANTI
*Program Director of the Master’s in Insurance & Risk Management, MIB Trieste*

Federica Seganti is Programme Director of the master’s in insurance & Risk Management – MIRM – at the MIB Trieste School of Management. Her main teaching and research areas are Corporate Finance, Project Financing, Pensions and Risk Management. She is Lecturer of Banking & Insurance Techniques at University of Udine and member of Scientific Advisory Board of ANRA, Italian Association of Risk Manager, and Assiteca Award. Her main non-academic roles include independent non-executive director of Hera SpA, independent non-executive director and member of Internal Audit Board of Eurizon Capital Sgr SpA. She was commissioner of COVIP – the Italian pension funds supervisory authority and member of OPSG – Occupational Pensions Stakeholder Group of the European Insurance and Occupational Pensions Authority (EIOPA).
FRANCO DELNERI
Senior Advisor for International and European Affairs, FeBAF

Franco Delneri is Managing Director of DAMM Management&Marketing d.o.o. Belgrade, a consultancy Company providing consulting, legal and financial services to Italian and Serbian Companies. From 2014 Senior Advisor for International and European Affairs of Italian Banking, Insurance and Finance Federation. Member of the Board of Directors and Internal Auditor of Findomestic Bank, BNP-Paribas Group from 2014 to 2017. Founding member of Confindustria Serbia. Previously Project Advisor for financial support to the Serbian SMEs at the Italian Ministry of Foreign Affairs. Former EBRD’s Senior Banker from 1996 to 1999 and then Head of the Department for Advisory Services of SIMEST merchant bank Rome. Working experience for international organizations (EBRD, EIB, European Commission, World Bank, IMF, IFC, Regional Funds, etc.) and Governments in Eastern Europe, Central Asia, Africa, and South America.

PAOLO GARONNA
Secretary General Italian Banking Insurance and Finance Federation FeBAF

Paolo Garonna is the Secretary General of the Italian Banking, Insurance and Finance Federation since October 2012. Professor of Political Economy at the Luiss Guido Carli University of Rome, he was Director General of the Association of Italian Insurers (ANIA) and Chief Economist of Confindustria. Professor Garonna was Director General of the Italian National Institute of Statistics (ISTAT) from 1992 to 1999, and, from 1989 to 1992, Deputy Director for Labor, Social Affairs and Education at the Organization for Economic Co-operation and Development (OECD) in Paris. From 1999 to 2009 he was Deputy Executive Secretary, and Executive Secretary ad interim, of the United Nations Economic Commission for Europe (UNECE) in Geneva. He car-
ried out research in America as Fulbright scholar, and in Cambridge, Great Britain, and taught in several Universities in Italy and abroad. He has published a considerable number of books and essays in Applied Economics, Statistics and Finance.

Richard Grieveson is Deputy Director of wiwi and head of Country Analysis. His main area of research is CESEE country analysis and economic forecasting, with a particular focus on Turkey and the Western Balkans. In addition, he works on migration, sovereign risk, economic history and European integration. He holds a Graduate Diploma in Economics from the University of London, Birkbeck, a master's in advanced international studies from the University of Vienna and a BA in History from the University of Cambridge. Previously he worked as a Director in the Emerging Europe Sovereigns team at Fitch Ratings, with a focus on the CIS and Balkans. Before that, he was Regional Manager and lead analyst for Germany and Poland in the Europe team at the Economist Intelligence Unit.

Goran Svilanović is an expert on economic and political developments in South East Europe, working with different consultancies. He served as Secretary General of the Regional Cooperation Council (2013-2018). Between 2008 and 2012 he was Co-ordinator of the OSCE Economic and Environmental Activities (2008-2012). In
November 2004, he became Chairman of Working Table I (democratization and human rights) of the Stability Pact for South Eastern Europe, where he served until the end of 2007. From 2000 to 2004, Mr Svilanović was Minister of Foreign Affairs of the Federal Republic of Yugoslavia/State Union of Serbia and Montenegro. Between 2000 and 2007, he was a Member of Parliament. With Ph.D. in Law, from the Union University in Belgrade, Masters and undergraduate law degrees from the University of Belgrade, Mr Svilanović has also studied at the Institute for Human Rights in Strasbourg, France, the University of Saarland in Germany, and the European University Center for Peace Studies in Staadtschlaining, Austria.
Acknowledgements

We would like to express our gratitude to Alessandra Szoldatics, Andrea Ampo and Igor Scurek from MIB Trieste School of Management for their efforts and support throughout the organization of the Workshop. Thanks also to Lucilla De Stefano and Silvia Darretta, who strongly supported the organization of the Workshop from the FeBAF office in Rome and Brussels, and Martina Terrone, Antonio Barini, Giuseppe Luigi Ricci and Maria Grazia Conti for their help in editing the final report from the FeBAF – Brussels. Special greetings to Prof. Safet Kozarević for his strong motivation and assistance, in relation with the entire process of organization of the different contributions to the Trieste Forum and this volume.
COVID ERA FINANCE IN EASTERN EUROPE

“It is not because things are difficult that we do not dare, it is because we do not dare that they are difficult” (Seneca)

This volume discusses the financial challenges that Eastern Europe and the Pan-European region are facing in the Covid Era. It collects several contributions prepared in connection with the Trieste Eastern Europe Investment Forum that the Italian Banking Insurance and Finance Federation (Febaf) organized in cooperation with the MIB Business School in June 2020. The role of banks, insurance companies and financial markets is key to providing not only liquidity and emergency support, but also supporting the recovery and the transition to a more resilient and sustainable economy and society. The economic and financial integration of the EU with Eastern Europe and the whole Pan-European region is both a pre-condition and an outcome of greater stability and sustainable development. The book discusses a number of steps and initiatives towards the establishment of a Comprehensive Pan-European Economic Partnership that represents the outer circle of “wider European integration”. Within such a Comprehensive Pan-European Partnership, investment and the financial sector take a driving role.

Paolo Garonna is Professor of Political Economy at the Luiss Guido Carli University of Rome and Secretary General of FeBAF.

Franco Delneri is CEO of DAMM Management & Marketing doo, Belgrade, and Senior Adviser for International and European Affairs of FeBAF.

Federica Seganti is the Programme Director of the Master in Insurance & Risk Management (MIRM) at MIB Trieste School of Management.