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DIPARTIMENTO DI SCIENZE ECONOMICHE E SOCIALI

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sector concerning the european union
in the forthcoming years**

Angelo Federico Arcelli
Andrea Federico
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Quaderno n. 146/dicembre 2019

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Executive summary

This paper is meant to be a general, non-exhaustive collection of snapshots and thoughts, also partially elaborated from exchanges with institutional counterparts, about the main issues for the next EU Commission in the domain of financial services. The intention is not to present an elaborated academic analysis about such topics, but, rather, to raise the awareness about the main pending issues in the economic and financial affairs domain, at the moment of a new EU Commission is taking office.

This will range from the area of the complete Banking Union, being a significant trigger for reforms and for the direction of future Europe, as well as to the possible Insurance Union (e.g. the shift of EIOPA role from coordinator to central regulator); and, more in general, to the future architecture of the financial and monetary Europe.

Topics include micro-economics, starting from the peculiar case of the state of the financial sector in Europe, with low profitability / low interest rates, cost reduction issues, NPLs and all the main regulatory reforms still on the table.

Money laundering issues, particularly in conjunction with digital evolution and the consequent pressure on traditional banking sector; risk control, including rules for leveraged finance.

But, also, macro-economic topics, starting from the effects of a possible U.S. economic downturn, including China-US trade war and connected impacts; public debt and aggregate private debt as a macroprudential issue; Brexit & the single Capital Market.

Amongst others, topics such as digital innovation, climate change, market efficiency (LIBOR / EURIBOR trends? Impacts on bonds and stock market?) and sustainability of the European position internationally in the financial markets.

Today in all these domains it does not seem that Europe speaks with one voice in all those, rather, national and sub-regional interests seem to prevail, jeopardizing the long-term perspective of an efficient European architecture, capable of generating growth and stability which is currently the only way to respond effectively to the challenges ahead.

Keywords: Convergence, Economic Growth, Globalization, Growth, EU.

JEL Classification: F620 Macroeconomic Impacts of Globalization

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1. Macro-economic landscape and US-EU relations

Following the financial crisis of 2008, the US have experienced one of the longest expansion periods it has ever seen. If such situation were to change, the capital market could go through a strong correction. A possible enabler for such correction could potentially come from emerging markets which have recently suffered from the strengthening of the US Dollar (de Guindos, 2018).

In general, current trade war with China is a further cause of uncertainty which may have significant impact on the persistence of growth and open trade¹. A down-turn in the US macro-financial cycle² could trigger a correction in markets, particularly for riskier asset classes. Furthermore, tensions have grown in emerging market economies on the back of a stronger US dollar and increased trade frictions. These developments may undermine global growth prospects and ultimately lead to abrupt increases in risk premia.

Adding uncertainty to the macro-economic arena there is still the open situation of Brexit. As pointed out by the International Monetary Fund (2019), among the most relevant consequences of Brexit, could be: first, the shrinking of the EU capital market due to lower traded volume of both equities and securities. Second, the decrease of market liquidity due to lower economies of scale and of scope of big banking groups which are currently possible with the centralization of their operations in one city, London. Third³, the enormous amount of companies which must bring their activity, currently in the UK, elsewhere to Europe. The

¹ BRUEGEL: <https://bruegel.org/2019/09/economic-priorities-for-new-eu-leadership/> – A country that has grown enormously since it joined the global trading system, WTO. And, while it has done so following the letter of the multilateral system, it has not followed the spirit of the global rules of engagement. This has given it what both the US and the EU believe is an unfair competitive advantage. The US also worries that the underlying motivation is not just economic but may have a security dimension.

² See ECB: https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp181115_1.en.html

³ See ECB: https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp181115_1.en.html – in Europe, debt sustainability concerns have risen both in the public and private sector. As regards public finances, Italy is the most prominent case at the moment in light of the overall debt level and the political tensions around the Italian government's budget plans. Contagion to other European sovereigns has however been limited.

latter will require an extra effort in terms of surveillance from the EU (International Monetary Fund, 2019).

Brexit would shrink the EU capital markets and could disrupt certain intra-European network linkages (IMF: A Capital Market Union for Europe). The volume of listed equities and private sector bonds in the EU would fall significantly.

Populist and even nationalist forces in many countries create centrifugal forces, like Brexit, that weaken the EU⁴.

Both, the US current situation and Brexit come at a time where concerns around private and public debts are substantial. Italy, the third biggest economy in terms of Gross Domestic Product (GDP), still shows a public debt 132 percent greater than its GDP, right behind Greece, which reaches approximately the 181 percent level (Eurostat, 2019). In distressed scenarios, greater debt will then bring greater negative impacts to the economy of affected countries.

The current expansive monetary policy which we see worldwide can be a mitigant factor. In fact, notwithstanding it appears evident that the transmission from monetary expansion to real growth boost is somehow jammed, at least in Europe, the presence of large liquidity supplies in the banking sector may facilitate the smoothening of an eventual risk of sharp stock market corrections, as investors, given low interest rates and available money supply, do not have immediate profitable and safer alternatives to traded stocks and bonds.

The perspective of a Capital Markets union in the EU may also trigger several positive and mitigant consequences, given current uncertainties⁵. Not an easy development given current political environment but a necessary step to revamp the idea itself of European union⁶.

⁴ BRUEGEL: <https://bruegel.org/2019/09/economic-priorities-for-new-eu-leadership/>

⁵ See ECB: <https://www.ecb.europa.eu/press/key/date/2019/html/ecb.sp190907~81df41228e.en.html>– *Comment supporting the need for an even further unification of services from Luis de Guindos (Vice-President of the ECB)*: The euro area services sector accounts for around two-thirds of gross value added and an even larger share of employment. Yet the Services Directive, which aims to reduce barriers to trade in services, has only been partially implemented and does not cover several key sectors. Reinvigorating the Single Market for services therefore remains a challenge that European leaders will need to tackle jointly.

⁶ BRUEGEL: <https://bruegel.org/2019/09/economic-priorities-for-new-eu-leadership/> – There is a visible increase in economic divergences between regions and countries.

2. Perspective for the regulatory environment in Europe given international developments

The foundation itself of the European Union is based on the idea that together, the member states, can all benefit from each other and maintain a strong presence on the global stage currently dominated by the US and China. However, the European project (which finds its roots in the Treaty of Rome in 1958) has not yet been completed. Today, more than ever we must make use of the cohesion and synergies between member states.

Among the key issues to be addressed Europe should develop a “fiscal instrument capable of counter-cyclical spending across the area” (Christine Lagarde, 2019⁷). Lagarde called for the eurozone to develop a fiscal instrument capable of counter-cyclical spending across the area. She also made the case for a common “treasury”, which might have at least some of the functions of a finance ministry.

This thesis is also supported by Luis de Guindos, Vice-President of the ECB⁸ who believes that growth and competitiveness could be stimulated by a consolidated corporate tax base (de Guindos, 2019). In addition to the fiscal aspect, the Sustainable Architecture for Finance in Europe (SAFE) has recently published a paper highlighting that a single European Deposit Insurance Scheme (EDIS) could “... *ensure uniformity across the Eurozone and facilitate the removal of barriers to the mobility of liquidity and capital within the single market*” (Huertas,

Social and economic cohesion has decreased and divisions are a lot more visible “...” here is little to no appetite to centralise parts of economic policy that are necessary to promote and sustain a monetary union.

⁷ See <https://www.centralbanking.com/central-banks/financial-stability/4403296/lagarde-calls-for-eurozone-wide-fiscal-capacity>

⁸ See ECB: <https://www.ecb.europa.eu/press/key/date/2019/html/ecb.sp190907~81df41228e.en.html> *Comment supporting the need for an unified corporate tax system from Luis de Guindos (Vice-President of the ECB):* The fragmentation of national corporate tax systems creates market distortions and impairs the functioning of the Single Market. Therefore, the long-debated Common Consolidated Corporate Tax Base would be a huge step forwards in deepening the Single Market. It would lower the administrative costs that firms face and mitigate competitive distortions created by diverse and often conflicting tax systems.

2019). Fostering unification also requires improved monitoring of economic activities.

Furthermore, many European countries⁹ have not adopted sufficient measures to tackle Anti-Money Laundering (AML) nor Counter-Terrorism Financing (CTF) issues yet (Campa, 2019)¹⁰. In regard to the latter, MONEYVAL (the associate member of the FATF which act as a monitoring mechanism of the Council of Europe) has recently held the 58th Plenary meeting where a special focus was given to “...confiscation of proceeds of crime and asset recovery” (Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, 2019).

Lastly but not least important, the balance of power. It is no secret that China and the US are setting the rules when it comes to world trade. But the former, since joining the WTO, has gained an unfair competitive advantage (Demertzis, 2019). As pointed out by Maria Demertzis, the US have taken a strong position against Chinese practices. Beyond Europe is now called to embrace the strength of the Union to make its move.

To complete banking union¹¹, there should be a single European deposit insurance scheme (EDIS) alongside the single supervisor and

⁹ See EUROPARL: EU regulators must co-operate more over money laundering – EBA head – European Banking Authority chairman José Manuel Campa told members of the European Parliament on September 5 that the agency had found different countries’ financial supervisors were still not co-operating enough on anti-money-laundering (AML) efforts. Also see IIF: Commission proposal to strengthen the Union framework for prudential and anti-money laundering supervision for financial institutions) – The current AML/CTF framework is not as effective as it should be. The amount of money laundered globally each year is estimated at 2% to 5% of global GDP, or between EUR 715 billion and 1.87 trillion each year.

¹⁰ See <https://www.regulationtomorrow.com/eu/eba-speech-on-aml-and-ctf-powers/> – Mr Campa discusses the limitation of the EBA’s existing powers in relation to enforcing its standards and guidelines and to promote convergence. While the EBA can make recommendations if it becomes aware of a breach of EU law, it cannot make up for weak provisions in EU law or ineffective supervisory practices at the Member State national level. The EBA needs to consider how it can utilise its full range of both ex ante and ex post implementation tools to facilitate and encourage effective implementation whilst ensuring responsibility for effective supervision sits with Member State national competent authorities (NCAs)

¹¹ SAFE: https://safefrankfurt.de/fileadmin/user_upload/editor_common/Policy_Center/SAFE_White_Paper_63.pdf

the single resolution authority. This would ensure uniformity across the Eurozone and facilitate the removal of barriers to the mobility of liquidity and capital within the single market.

In addition to the Capital Markets union, in Europe it could also come a further, connected, development, such as an Insurance market union. In fact, The European Insurance and Occupational Pensions Supervisory Authority (EIOPA) currently plays a coordinating role in supervision, with final authority remaining with the national supervisors. A more centralised role for EIOPA in a European insurance union would overcome the fragmentation in supervision and ensure a joined-up view of the large cross-border insurance groups, enhancing the effectiveness of supervision¹².

While these improvements are welcome, it is important to underscore the fact that the additional flexibility proposed as to the number of European Union Intermediate Parent Undertaking Proposal¹³ does not address remaining concerns that we believe merit further essential revisions to the proposals. The purpose of the IPU proposal is to consolidate the EU activities of the largest non-EU banking groups under a single IPU. The EC expects the regime to facilitate group supervision and enhance the resolvability of the firms in scope. The proposal is also likely to increase the ECB's supervisory powers (as the consolidating supervisor of the IPU's in the euro area), particularly as the EC is also proposing that the ECB be given supervisory oversight over systemic investment firms.

3. Banks, markets and risks

Low financial sector profitability and the current low interest rate environment is something which could become a concern for the medium term. On the cyclical front, banks are finding it hard to increase their revenue in the low interest rate environment. Although credit growth has increased somewhat with the improving economic conditions, it is not yet sufficient to compensate for the low interest rate margins.

¹² See BRUEGEL: https://bruegel.org/wp-content/uploads/2016/12/PB_04_16-final.pdf

¹³ PWC: <https://pwc.blogs.com/fsrr/2018/09/intermediate-parent-undertaking-time-to-prepare.html>

The continued economic recovery should, however, reduce the negative impact of cyclical factors over time, as banks' balance sheets adjust¹⁴. But, notwithstanding this effect, it is for sure that insurance business and financial business are seriously affected and the excess of liquid and cheap supply for a long time has, to date, failed to get any real effect in terms of boosting recovery.

On aggregate, euro area banks have so far been unable to meaningfully reduce operating costs in the aftermath of the financial crisis. In fact, euro area significant institutions' operating expenses have increased by over 5%, on aggregate, since 2010, despite a 3% decline in total assets over the period and the extensive restructuring efforts that have taken place in many banks¹⁵.

Regarding the legacy of NPLs we first need to acknowledge that significant progress has been made. On average, NPL stocks are being reduced relatively quickly¹⁶, particularly in countries with the highest levels of NPLs. Still, the burden remains heavy for a number of banks.

But the excess in money supply is not the only issue about a proper functioning of financial markets. Leveraged finance, known as the type of "*...transactions that entail an elevated risk for the lenders or investors providing the funds*" (Deslandes, Dias, & Magnus, 2019), has recently risen more concerns.

A newly published study conducted by Standard and Poor's have discovered that covenant-light credits in Europe account for 81.6 percent of the outstanding leveraged loans. But the most striking figure is the recent growth of such covenant-light credits which is an alerting increase by nearly 100 percent in the past three years, as back to 2016 they were accounting for roughly 40 percent of the outstanding leveraged loans only (S&P Global Market Intelligence, 2019). The ECB guidance on such matter has been proven not as effective as hoped so far (Standard & Poors Global Market Intelligence, 2018).

¹⁴ See ECB: https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp181115_1.en.html

¹⁵ See ECB: https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp181115_1.en.html

¹⁶ See ECB: https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp181115_1.en.html

Leveraged finance¹⁷ has also gathered the attention of many respectable institutions such as the International Monetary Fund (2018), the Bank of International Settlements (Tirupam, 2018) and the Financial Stability Board (2019). Each of them, together with the European Central Bank (2018) have issued clear warnings stating that current levels of leveraged finance together with a distressed scenario may threaten the financial stability of the EU particularly in countries with high credit risk.

4. Climate change

It is already well known that one of the most urgent challenges Europe must face during the years to come is the effect of climate change. A lot has been said around the topic and public awareness has greatly increased. For instance, as stated by the International Trade Centre and the European Commission who have interviewed several retailers in five major European countries, the demand for sustainable products has increased by 10% in the last 5 years (International Trade Centre, 2019). Fortunately, retail is clearly not the only industry where sustainability is getting traction. In the financial industry sustainable investment is getting its momentum. Between 2010 and 2017 the global assets under management (“AuM”) of investment managers who signed the United Nation Principles for Responsible Investment (“UN-PRI”) have increased by almost €43 trillion reaching €62 trillion of total AuM¹⁸. While there are some positive signals for a more sustainable future, much more remains to be done. A significant example is the use of coal, which is *“the most environmentally and climate damaging of resources”* (Demertzis, Sapir, & Wolff, 2019). This natural resource is currently used to produce around 80% of the electricity in Poland and Estonia and

¹⁷ EUROPARL: Leveraged finance: a supervisory concern in the Banking Union? – The increased volume of “leveraged finance” in the banking sector has recently led US, EU, and international supervisory authorities to caution against related financial stability risks. This briefing summarises (i) the concept of leveraged finance, (ii) the warnings that the different supervisory authorities have issued, (iii) the market developments, (iv) key financial stability risks, (v) and the related actions taken so far by the ECB.

¹⁸ Source: UN PRI, MSCI, Morningstar, Morgan Stanley, Oliver Wyman Analysis

more than 40% in Germany and Greece¹⁹. Due to such emissions global temperatures are rising faster than expected.

Some scientists have started to believe that the target set under the Paris Agreement in 2015 will not be sufficient to prevent irreversible damages (Voosen, 2019). The situation is undeniably critical, but a glimpse of hope comes from the Global Assessment Report on Biodiversity and Ecosystem Services (IPBES), the latest and most sophisticated report of its kind (United Nations, 2019). Among the many shocking findings, the 145 experts involved in the preparation of the document convey the idea that we are still on time to avoid irreparable damages to the ecosystem if we act now both at a local and a global level.

In practice terms the European Union has the power to make a change and as it was stated by the newly appointed president of the European Central Bank Christine Lagarde in front of the European Parliament "... any institution has to actually have climate change risk and protection of the environment at the core of their understanding of their mission" (Hakkarainen, 2019).

5. Finance for sustainable growth

The financial system is a substantial support for growth, but nowadays a push towards sustainable growth is requested and a variety of initiatives are influencing the regulation framework of the financial markets towards sustainability.

Firstly, this discussion claims for a clear definition for sustainable growth. After the definition provided by the Brundtland Report (United Nations 2017)²⁰, that is we define as sustainable the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs", the financial system has developed a relevant set of tools supporting green investments and more generally the conversion of the economy towards a new paradigm, more

¹⁹ Source: IEA, Energiebilanzen (Germany), Oliver Wyman Analysis

²⁰ See Escrig-Olmedo, E., Fernandez Izquierdo, M. A., Ferrero Ferrero, I., Rivera-Lirio, J. M., & Munoz-Torres, M. J. (2019). Rating the raters: evaluating how ESR Agencies Integrate Sustainability Principles. *Sustainability*, 11, 915. Also see United Nations. (1987). *Our Common Future - Report of the World Commission on Development and Environment*. New York: United Nations.

oriented to take into account issues like climate change and environmental impact of economic activities.

After that a variety of tools have been developed in order to push companies toward the adoption of a renewed approach towards sustainability through the Global compact (UN Global Compact 2018)²¹ and the Global Reporting initiative²² but also by UNEP initiative to promote responsible investment with the Equator principles and the Global Reporting initiative promoting the reporting activity on sustainability.

Since 2015, after the UN published the Agenda 2030 promoting sustainable growth, a new standard has been introduced in the debate claiming for seventeen development goals that have to be reached and sustained by regulation and by markets.

An increasing attention to these issues is emerging in the regulation of the financial markets in Europe starting with the Communication EU-COM(739)²³, 2016 where is stated that “...the Commission will mainstream the Sustainable Development Goals into EU policies and initiatives, with sustainable development as an essential guiding principle for all its policies” and that “Sustainable finance (SDG 8,9, 13, 14 and 15) is high on the agenda of the G20 and in Europe”²⁴.

In the road towards a Capital Market Union the High-Level Expert Group (promoted by the EC in 2016) has claimed for “measures to improve disclosure and better integrate sustainability/ESG in rating methodologies and supervisory processes, as well as in the investment mandates of institutional investors and asset managers” (HLEG-EC, 2018”).

Finally in 2018 the Action Plan of the EC has been published where a robust definition of “sustainable finance” is provided saying that “Sustainable finance generally refers to the process of taking due account of environmental and social considerations in investment decision-making, leading to increased investments in longer-term and

²¹ UN-GlobalCompact. (2018). Integrating SDGs in Corporate Reporting: a practical guide. United Nations.

²² UN-GlobalCompact, & KPMG. (2016). SDG Industry Matrix. United Nations.

²³ EU-COM(739). (2016). Next steps for a sustainable European Future - European action for sustainability. Brussels: European Commission.

²⁴ EU-COM(97). (2018). Action Plan: Financing Sustainable Growth. Brussels: European Commission.

sustainable activities. More specifically, environmental considerations refer to climate change mitigation and adaptation, as well as the environment more broadly and related risks (e.g. natural disasters). Social considerations may refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities. Environmental and social considerations are often intertwined, as especially climate change can exacerbate existing systems of inequality. The governance of public and private institutions, including management structures, employee relations and executive remuneration, plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process²⁵. A wider definition of sustainability is strongly suggested to the financial system, opening the perspective well beyond environmental issues and considering seriously social and institutional considerations. The financial actors are motivated to consider the negative effects of climate change, but also to include considerations about the unpleasant inequality outcomes of a large number of economic systems, that are a serious danger for the long run equilibrium of markets.

In May 2018 the EC has adopted a package of measures stemming from the Action Plan with a proposal of regulation for a taxonomy of sustainable economic activities (EU-COM(353), 2018)²⁵, a proposal of regulation on the obligations of disclosure for asset managers and institutional investors to take into account ESG factors in the process of choice of financial investment (EU-COM(354), 2018)²⁶ and new benchmarks for the carbon footprint measurement (EU-COM(355), 2018)²⁷. Moreover, in the context of MIFID II Directive, Insurance Distribution Directive and Solvency II have been adopted a preliminary approach for overcoming the short-termism in the capital market, that is

²⁵ EU-COM(353). (2018). Proposta di REGOLAMENTO DEL PARLAMENTO EUROPEO E DEL CONSIGLIO relativo all'istituzione di un quadro che favorisce gli investimenti sostenibili. Bruxelles: Commissione Europea.

²⁶ EU-COM(354). (2018). Proposta di REGOLAMENTO DEL PARLAMENTO EUROPEO E DEL CONSIGLIO sull'informativa in materia di investimenti sostenibili e rischi per la sostenibilità recante modifica della direttiva (UE) 2016/2341. Bruxelles: Commissione Europea.

²⁷ EU-COM(355). (2018). REGOLAMENTO DEL PARLAMENTO EUROPEO E DEL CONSIGLIO che modifica il regolamento (UE) 2016/1011 per quanto riguarda gli indici di riferimento di basse emissioni di carbonio e gli indici di riferimento di impatto positivo in termini di carbonio. Bruxelles: Commissione Europea.

considered a major obstacle to the adoption of the opposite sustainable view in financial activities.

Obviously, there is room for the analysis to evaluate whether a more sustainable approach in regulating the financial market has a positive effect on the performance of the market. A variety of analysis are claiming that more sustainable investments do not reduce, but often increase, the profitability. If risk is clearly accounted for, a proper evaluation of financial investments is possible, and sustainability can be reached also by exploiting the potential of financial markets.

6. Digital innovation

Technological advances are shaping the competitive landscape and the European Union needs to be constantly up to date and ready to ensure that those advances create an opportunity for the economy and not a threat to it²⁸. IIF report about “FinTech and market structure in financial services” recognizes some important distinctions, most notably the different market and competitive dynamics associated with the smaller so-called “FinTech” companies as opposed to “BigTech” firms²⁹.

According to IIF many of the impediments to the flow of data across borders stem from legitimate public policy objectives, such as privacy, security or law enforcement. Yet those restrictions can also bring some side effects for the financial system and the overall economy: they may increase IT and data complexity; undermine the risk management, cyber security and anti-money laundering practices of financial institutions; as well as reducing access to financial services and markets in some countries.

²⁸ See ECB: Link) – The rapid pace of technological advances and the ensuing change in the competitive landscape are both a key strategic opportunity and a challenge for banks. For example, a shift from branch networks towards digital banking has enabled many banks, notably in the Nordic countries, to reduce costs while maintaining sound customer bases and market shares. But clearly, a successful transformation is likely to hinge on the support of beneficial structural factors such as labour laws, how the market is structured and the digital readiness of the economy.

²⁹ We also commend the FSB for emphasizing the risks for institutions that do not keep pace by adopting technologies such Cloud, as well as on the risks posed by fragmentation and barriers in data flows, each of which are prominent areas of focus for the IIF.

The financial industry is among the most affected by technology. On the one side, new crypto currencies such as the Facebook Libra or ascending FinTechs are threatening current consolidated business models. For instance, a research published by the Institute of International Finance and McKinsey & Co. (2017)³⁰, shows that digital attackers have on average a cost to income of around 33 percent whereas incumbent banks have on average 55 percent.

On the other side, macro-economic factors such as low interest rates are making it tough to maintain Return on Equity above Cost of Capital. Some countries like the Nordics more than others have embraced the change and made a step forward (de Guindos, 2018).

7. Conclusions

We are witnessing a global crisis that will affect almost all aspects of our lives, finance included. As banking supervisors, we have to deal with the risks that climate change poses to banks, and it is true that the journey has just begun.

We must now raise awareness among banks. We must better understand the risks and we must find ways to mitigate them³¹. Sustainable investment is gaining momentum in Europe, both among investors and in policy circles. Sustainable investment can be defined as a long-term oriented investment approach, which integrates environmental, social and governance (ESG)³².

Without a clear and decisive action to stop and reverse global warming³³, there will be horrific natural disasters some of which are already visible. For starters, energy transition, from depleting sources of energy to renewable resources, needs to speed up. From research on batteries for electric vehicles to the generation of electricity the need for innovation is crucial.

³⁰ IIF: Explainability in predictive modelling – To firstly note firms’ motivations for using Machine Learning techniques, a 2017 IIF-McKinsey report identified two drivers for the broader digital transformation of the risk management function.4

³¹ ECB: <https://www.bankingsupervision.europa.eu/press/speeches/date/2019/html/ssm.sp190909~59dd0a1490.en.html>

³² BRUEGEL: https://bruegel.org/wp-content/uploads/2018/11/PC-23_2018.pdf

³³ BRUEGEL: <https://bruegel.org/2019/09/economic-priorities-for-new-eu-leadership/>

It is shocking to see just how much of our electricity is still generated by coal (80% for countries like Poland or Estonia, above 40% for Greece and Germany) the most environmentally and climate damaging of resources.

In a recent interview after his nomination as EU Economic Affairs commissioner, Gentiloni declared: *“I will work, above all, to contribute to boosting growth and social and environmental sustainability of that growth. It's a major role at a crucial time for the future of the European economy”*. In conclusion, as Bruegel recently reported³⁴, in 2024 we will be looking back at the legacy that the new set of leaders will leave behind. There will be a lot on which to judge them. But perhaps the most important will have been whether they have managed to make Europe speak with one voice, the only way it can deal effectively with the challenges that lie ahead.

³⁴ BRUEGEL <https://bruegel.org/2019/09/economic-priorities-for-new-eu-leadership/>

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