The International Group of Treasury Associations

IGTA e-Journal Summer 2022

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Picture: Warsaw, Poland, part of old town, and royal castle

IGTA e-Journal **Issue Summer 2022** **August 31, 2022**

Table of Contents

.............page 2-4

Letter of the Editor **……………...………………………………………..…..………..page 5**

France, Article: **The ECB Is Trying to Become a "Normal" Central Bank Again**

By **Bastien Drut,** Strategist, Head of Thematic Macro Strategy, CPR Asset Management, from "*La Lettre du trésorier*" Nr. 400, July - August 2022, magazine of AFTE, the French IGTA Member Association
…………………………………………………………..................page 6-8

France, Article: **Towards a More Transparent ESG Rating Market**

By **Aude Revel,** AFTE Rating working group, From "*La Lettre du trésorier*" Nr. 400, July-August 2022, magazine of AFTE, the French IGTA Member Association
…………………………………………………………..............page 9-10

France, Article: **The Need to Anticipate Changes in CSR Objectives in Impact Loans and Sustainability-linked Bonds**

By **Louis de Longeaux, Herbert Smith Freehills, and Ronan Petit, Danone,** from "La Lettre du trésorier" Nr 399, June 2022, magazine of AFTE, the French IGTA Member Association
…………………………………………………………...........page 11-12

Germany, Interview:

„We Do Not Need More Regulation"
Interview with **Mr Christian Illek**, CFO of **Deutsche Telekom AG**

The Telekom CFO about consolidation in Europe, the first Sustainability-linked bond, and sales at T – Systems.

From the Börsen-Zeitung, Frankfurt am Main, Germany, June 15, 16, 2022, article provided by GEFIU, now CFO Forum Germany, Association of Chief Financial Officers Germany, the German IGTA Member Association
…………………………………………………………..........page 13-20

Luxemburg, Article:

Evangelisation of Treasury Functions

By **François Masquelier**, Chair of ATEL – Luxembourg, The Luxemburg IGTA Member Association, CEO of *Simply*TREASURY – Luxemburg, June 2022
…………………………………………………………..........page 21-23

Luxemburg, Article:

Deglobalisation as Booster of FX Volatility

By **François Masquelier**, Chair of ATEL – Luxembourg, The Luxemburg IGTA Member Association, CEO of *Simply*TREASURY – Luxemburg, July 2022
…………………………………………………………..........page 24-27

Luxemburg, Article:

Partnering, The Necessary New Way to Success in Treasury

By **François Masquelier**, Chair of ATEL, the Luxemburg IGTA Member Association, CEO of *Simply*TREASURY – Luxemburg, June 2022
…………………………………………………………..........page 28-30

UK, Article:

Medium-sized businesses must focus on their ESG strategy if they are to secure new financing from lenders in the future

By **Philip Smith,** editor of The Treasurer**,** magazine of ACT, Association of Corporate Treasurers, UK, the British IGTA Member Association, from website edition www.treasurers.org, July 2022
…………………………………………………………..........page 31-32

USA, Speech: **Monetary Policy and Price Stability**

Speech by **Mr Jerome H Powell,** Chair of the Board of Governors of the Federal Reserve System, at the "Reassessing Constraints on the Economy and Policy" economic policy symposium sponsored by the Federal Reserve Bank of Kansas City, **Jackson Hole, Wyoming**, 26 August 2022, from BIS central bankers´ speeches
…………………………………………………………..........page 33-35

USA, Chart: **Leading the Way Down**
Conference Board´s Leading Economic Index
6 – Month Annualized Percent Change

Chart of the Week, for the Week Ending: August 19, 2022, By **Payden & Rygel**, Investment Management, Los Angeles, USA, August 2022
…………………………………………………………….………page 36

USA, Chart: **Central Bank Summer Camp**
Change in Federal Funds Rate Prior to the Jackson Hole Economic Symposium
6 – Month Change in Percentage Points

Chart of the Week, for the Week Ending: August 26, 2022, By **Payden & Rygel**, Investment Management, Los Angeles, USA, August 2022
…………………………………………………………….………page 37

Letter of the Editor August 31, 2022

Dear Treasurer,

You receive the **IGTA e-Journal** **Issue Summer 2022**

It is the electronic professional journal of IGTA, International Group of Treasury Associations. IGTA thanks all authors and all IGTA Member Associations, contributing to this issue.

This journal, is intended to be the internal ongoing information platform for professional subjects, for the individual members of the National Treasurer Associations (NTAs) and for IGTA itself,

destined to reach the desk of each treasurer of an NTA,
at the discretion of the NTA Member Associations of IGTA.

All National Treasury Associations, member associations of IGTA, and all individual members of NTAs

are asked, to send articles, for inclusion in future IGTA e–Journals.

This IGTA e-Journal issue provides a broad spectrum of articles from authors of several countries.

As announced separately, and after for two years no physical IGTA meetings were possible due to the worldwide Corona pandemic, IGTA is now heading for its in person, and also hybrid, Annual General Meeting, on September 17, 2022, in Warsaw, Poland, alongside the in person, and hybrid as well, board meeting of EACT. The meetings are hosted by the Polish Corporate Treasurer Association, PCTA, the Polish IGTA and EACT Member Association, which also celebrates its 15 th Anniversary. We look forward to meeting as many of you as possible physically in Warsaw.

With my best regards

Helmut Schnabel

France, Article: The ECB Is Trying to Become a "Normal" Central Bank Again

By **Bastien Drut,** Strategist, Head of Thematic Macro Strategy, CPR Asset Management, from "*La Lettre trésorier*" Nr. 400, July - August 2022, magazine of AFTE, the French IGTA Member Association

At its July Governing Council meeting, the European Central Bank finally announced that it was initiating a cycle of conventional rate hikes, like several its counterparts (Federal Reserve, Bank of England, Bank of Canada, etc). It must be said that inflation has risen very sharply (+8.6% in July) and that the rise in prices has spread well beyond energy. It is this widespread acceleration of prices in the euro area, coupled with the sharp rise in inflation expectations (whether from market measures or business and household surveys), that has the ECB now considering returning to being a "normal" central bank.

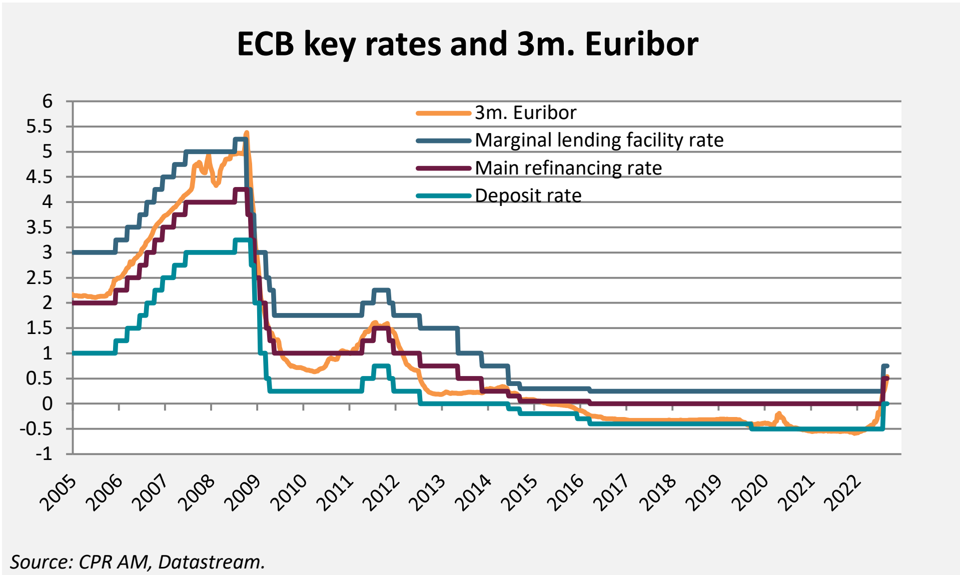
One of the narratives at the heart of the ECB's communication adjustment has been the fact that the euro area is likely to have moved out of the low inflation regime it experienced in the 2010s. ECB Chief Economist Philip Lane, one of the more dovish members of the board, said on 5 May that it was "unlikely that the euro area will return to the persistent sub-2% inflation trend that was so entrenched before the pandemic" and even that it was necessary to "monitor closely" a possible de-anchoring of inflation expectations. Several ECB board members have made similar comments on several occasions.

Inconsistencies in communication

Like most stakeholders, the ECB was extremely surprised by the acceleration of inflation and part of it, caused by the Russian invasion of Ukraine, was impossible to predict. But there is an inconsistency in the fact that the Governing Council announced in December 2021 that it would continue to purchase securities under its Asset Purchase Programme (APP) until at least the end of the third quarter of 2022 (and even without a precise end date), whereas Christine Lagarde had indicated a few days earlier that it was better to "avoid making long-term commitments"... It should be remembered that, in theory, announcing an asset purchase program is supposed to postpone the anticipated date of the first rate hike (signalling effect). In the same vein, Lagarde maintained for some time that a rate hike in 2022 was "very unlikely". This inconsistency led the ECB to quickly backtrack on the securities purchase policy and to repeatedly bring forward the likely end of securities purchases. Finally, on 1 July, the ECB's securities purchase policies have come to an end.

On 9 June, the Governing Council therefore had affirmed its intention to raise key rates by 25 basis points in July and implied that a higher rate hike would take place in September if inflation

expectations remained at their levels or rose. Actually, the ECB raised its key rates by 50 basis points in July as inflation accelerated further. The ECB board also mentioned a "gradual but sustained path" of rate hikes. In short, a real cycle of rate hikes is ahead. But one might wonder how high the key rates will be raised to curb inflation.



Source: CPR AM, Datastream.

In search of the neutral rate

Clearly, some of Europe's inflation comes from supply shocks, which the ECB cannot do anything about, but the levels reached are so high that the ECB is in a situation where it no longer makes sense to stimulate demand with policy rates below what could be called a "neutral rate".

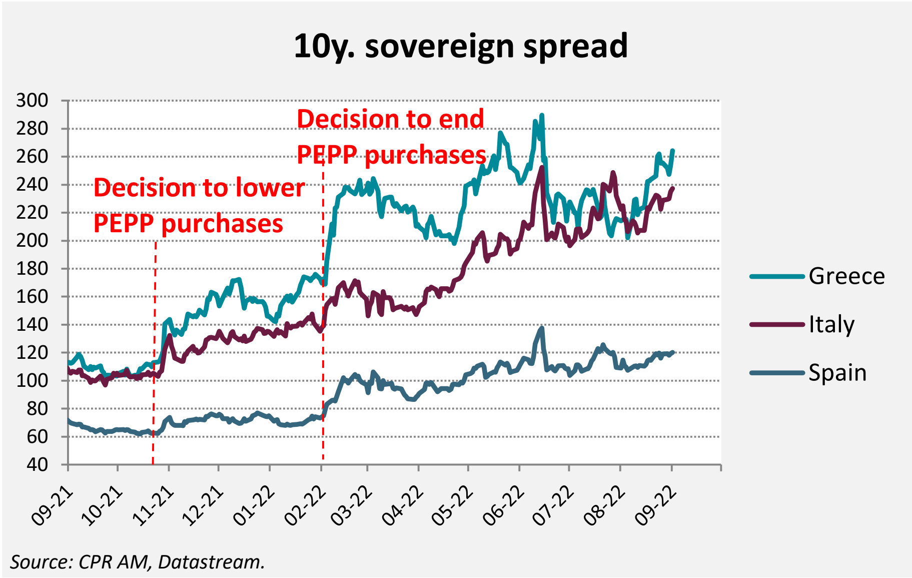
Over the past ten years, members of the Governing Council have referred to the concept of a "neutral rate" much less often than their counterparts on the Federal Reserve's Federal Open Market Committee, partly because the ECB has found the estimates too uncertain. Nevertheless, Executive Board member Isabel Schnabel referred to this explicitly in an interview on 3 May: "We are starting from an extremely low level. Real interest rates are very negative and close to historical lows, which means that even after the first hikes, interest rates will remain at levels that support the economy. We are quite far from the neutral rate”. Estimates (subject to high uncertainty) of the neutral rate by ECB economists generally hover around 1.5%, as seen in presentations by Executive Board members. François Villeroy de Galhau said that reaching neutral levels by the end of the year would be appropriate.

Unlike other central banks that are raising policy rates, there is no question of the ECB reducing the size of the balance sheet yet. Indeed, securities held will be reinvested as they mature: the board explains (for the time being) that securities held under the APP will be reinvested at maturity for an extended period after the first rate hike and that those held under the Pandemic Emergency Purchase Programme (PEPP) will be reinvested until at least the end of 2024. However, a rapid rise in policy rates will mean that excess reserves held by commercial banks

will now represent a cost to the Eurosystem, whereas they were previously earning a return (via negative rates). This could quickly become problematic and lead to the cessation of this policy of reinvesting maturing securities.

New threat of Eurozone fragmentation

This is crucial for the bond markets, for example in the case of Italy, where the Eurosystem has been by far the largest buyer of government debt in recent years. 723 billion of Italian government debt was held jointly by the Bank of Italy and the ECB under the APP and the PEPP in April 2022. At the Governing Council meeting on 9 June, nothing concrete was announced to combat widening sovereign spreads... which led to a widening of Italian spreads and provoked an unscheduled meeting on 15 June, during which the preparation of an "anti-fragmentation" tool was formalised. The very unpleasant experience of the Eurozone crisis in 2011-2013 (seven consecutive quarters of GDP contraction) means that the ECB is most likely keen to avoid a spike in Italian rates and a new episode of sovereign debt crisis.



In the end, it is clear that the ECB's ambition to become a "normal" central bank is not without its pitfalls, especially after almost a decade of ultra-accommodating monetary policies. It is not insurmountable, but it does raise several delicate questions.

France, Article: Towards a More Transparent ESG Rating Market

By Aude Revel, AFTE Rating working group, From "*La Lettre du trésorier*" Nr. 400, July-August 2022, magazine of AFTE, the French IGTA Member Association

The French Association of Corporate Treasurers (AFTE) responded to a European Commission consultation for ESG rating stakeholders. It was important to participate in this consultation: the market is growing rapidly and ESG ratings already have a considerable impact on the conditions of access to financing, whether bank or bond.

Numerous consultations and studies have highlighted a lack of transparency and a heterogeneity in the data and methods used, conflicts of interest in the services offered, and a lack of comparability and correlation between ratings. With its Green Deal, the European Union aims to improve the quality of the information on which investors base their decisions. The European Commission therefore wishes to assess the possible impacts and costs of making this market more efficient.

To provide a better framework for ESG rating providers, AFTE recommends greater transparency on the sources of data and the methods used, that the ESG rating agencies liability be incurred, that the business model be regulated to avoid conflicts of interest between consulting services and rating services, and that companies be able to discuss with the agency before the rating is published.

A prerequisite for a certain standardisation of this market is the provision of homogeneous ESG data by companies and therefore the AFTE supports the work on Corporate Sustainability Reporting Directive draft.

Furthermore, to promote the emergence of a capital markets union in Europe, AFTE believes that ESG rating providers should be supervised at the European level to ensure the comparability and reliability of these ratings.

Integrating ESG into credit quality in a transparent manner

The consultation also focused on the inclusion of ESG factors in the determination of credit quality. Unlike ESG rating agencies, credit rating agencies have long been regulated at the European level and their practices are governed by global standards established by the International Organisation of Securities Commissions. The legal framework is therefore sufficient to ensure the reliability of ratings and investor confidence.For several years, at the

request of the European Securities and Markets Authority, credit rating agencies have been working on a clearer presentation of ESG factors and their impact in the final rating. However, this work is being carried out in a scattered manner. AFTE, like other French market organisations, recommends standardising the disclosure of ESG factors that have had an impact on a credit rating.

Even if the ESG rating and credit rating markets are at various stages of maturity, sharing best practices will benefit everyone. Therefore AFTE believes that a single supervision of both markets, for example by the European Securities and Markets Authority, would be beneficial.

France, Article: The Need to Anticipate Changes in CSR Objectives in Impact Loans and Sustainability-linked Bonds

By Louis de Longeaux, Herbert Smith Freehills, and Ronan Petit, Danone, from "La Lettre du trésorier" Nr 399, June 2022, magazine of AFTE, the French IGTA Member Association

Finance was one of the first business sectors to make a firm commitment to corporate social responsibility (CSR). In addition to financing environmental or social projects under the name of green bond or green loan, this movement has resulted in the appearance of financing for the general needs of the company, the cost of which varies according to CSR performance criteria. Traditional corporate bank loans are thus being replaced for both large companies and SMEs by these CSR loans, known as impact loans, while sustainability-linked bonds (SLBs) are attracting growing interest on the bond market.

The CSR criteria based on which the adjustment is determined may be a non-financial rating, but in most cases are Key Performance Indicators (KPIs) for which the borrowing company sets targets to be reached during the term of the financing.

The financial gain offered by this financing is currently limited to a few basis points, but companies see it above all as a means of communicating their CSR ambitions.

Key indicators likely to evolve

However, this desire to communicate can backfire if they are unable to achieve the stated objectives, thus generating an image risk.
The causes of non-compliance with the objectives set may be due to poorly calibrated KPIs or a faulty CSR policy for which they are responsible. On the other hand, as CSR regulations are constantly being reviewed by national and European authorities, it cannot be ruled out that the definition of the KPIs selected will have to be revised or that market standards will change during the term of the loan. Similarly, the company may carry out an external growth operation or a disposal of a structuring activity that will significantly affect its KPIs.

These events, which are independent of the company's CSR management, must be anticipated when drafting the documentation and considered in the context of appropriate review clauses to avoid finding oneself in a bind.

In the case of banking, it is essential to provide that the borrower can, in these circumstances, request a change in the KPIs or objectives set from the lenders of its impact loan without having to obtain their unanimous agreement, which would present too great a risk of deadlock. Current practice allows for this and very generally requires the prior agreement of only a majority of the lenders (which is a qualified two-thirds majority in bank loans).

Avoiding the difficulties of convening bondholders

In the bond field, the general rule is that any modification of the terms and conditions of the bonds must be approved by the general meeting of bondholders. The procedure for convening and holding such a general meeting is cumbersome: it requires compliance with certain time limits for convening the meeting, a quorum and strict majority rules, and requires advertisements detailing the agenda of the meeting and the terms of its decision. Moreover, practice shows that it is very difficult to mobilise holders to participate and that many proxies have a policy of voting against such requests.
Under these conditions, many companies are reluctant to embark on a SLB project because of the lack of guarantees as to their ability to review the objectives set if an event outside their CSR policy occurs.

The presence of a review clause offering both flexibility for issuers and protection for investors is therefore necessary for the development of this market.
A recent joint initiative by the French *Autorité des Marchés Financiers* and the AFTE's Legal Commission is in line with this approach. In the framework of a working group set up for the occasion, a standard revision clause, which satisfies both issuers and the market authority, which is committed to investor protection, was successfully adopted.

Guaranteed recourse to a third-party expert

This clause provides that if an event affecting the scope of the issuer's group occurs (in particular due to an acquisition, sale or restructuring), a change in applicable regulations or a change in market practice influencing the method of calculating the CSR targets, which would have a significant effect on the determination of the CSR targets set out in the SLB, the issuer may, without going through an agreement of the general meeting of bondholders, adjust the level accordingly. However, to ensure the protection of bondholders, it is necessary that the adjustment thus made be validated by a recognised third-party expert who confirms that the modified CSR objectives reflect the same level of ambition as the initial objectives, considering the circumstances that led to their revision. A warning about the consequences of this clause for investors will be included in the bond prospectus.

Such wording should overcome the reluctance of companies to adopt SLB and allow this market to develop in France with the same success as that of impact loans.

With impact loans and other SLBs, finance is changing and tending to integrate a value-added approach to the company's CSR strategy. However, as we have seen, this is an eminently volatile data that is not entirely compatible with the need for predictability and security that finance requires. The review clauses described in this article help to create the necessary protective conditions to accompany this transformation.

Germany, Interview: „We Do Not Need More Regulation"

Interview with **Mr Christian Illek**, CFO of **Deutsche Telekom AG**

The Telekom CFO about consolidation in Europe, the first Sustainability-linked bond, and sales at T – Systems.

From the Börsen-Zeitung, Frankfurt am Main, Germany, June 15, 16, 2022, article provided by GEFIU, now CFO Forum Deutschland, Association of Chief Financial Officers Germany, The German IGTA Member Association

Whether and when T – Mobile US will ever pay a dividend, leaves the CFO Christian Illek unanswered. At the cell towers the M & A wheel is turning around. And also at the chronically sick business clients division partial divestments are possible. The ownership at BT – Group, though, is not for sale. Meanwhile, states the CFO, there have naturally happened valuation decreases.

Mr. Illek, the Telekom Group has advanced well, strategically, in the past years, and this pays off in the operating business, especially also in the USA. It does not translate, though, into the dividend and the investors are grumbling, that not enough of the growing cash flow is arriving at them. Will this ratio over the medium term again determine more the dividend ?

We have a clear dividend policy. We continue to regard the restated earnings per share as the right measure, at which the dividend is oriented. Because the earnings per share do reflect the ownership situations at the various group companies. It thus also reflects, which portion really economically relates to the shareholders of Deutsche Telekom, after considering the portions of the external investors. We are managing since 2020 at record speed the integration of Sprint in the USA into the Group. This at the beginning - also in this year - is lowering our earnings. But we have envisaged a significant growth at the cash flow and also at the restated earnings per share, to the amount of over 18 billion €, respectively more than 1,75 € per share in 2024. This is meant to reflect itself alongside our dividend policy also in increasing dividends, and thus reward the patience of our shareholders.

When will T – Mobile US pay a dividend ? At this, the Telekom as major shareholder is not without influence.

The management of T – Mobile US has signaled, that between 2023 and 2025 a total of up to 60 billion Dollar will be made available for dividends to the shareholders.. This shows, which growth potential especially by way of the merger with Sprint is inherent in the Group. At this wants T – Mobile US its shareholders to participate. In which form, whether through dividends or through share buybacks, the corporation will decide when time will have come.

How, then, the shareholders of Telekom can participate in the performance of the Group ?

Here it is about two dimensions: Shareholders as a matter of principle, do benefit on the one hand from the value increase of the share, and on the other hand from the dividend policy. Our planned earnings growth is meant to influence both positively. The value of the T - Share is meant to increase with higher earnings. Through our dividend policy and with increasing earnings, also the dividend is intended to grow. Once again: We are planning an increase at the earnings per share from 1,22 Euro 2021 to more than 1,75 Euro per share 2024. In total, the shareholders should then benefit from both factors.

The significant debt mountain at last has grown further. Are there plans - also with a view to the business dynamics in the USA - to perhaps de-leverage somewhat faster than planned, now when the interest rates are rising ?

We have roundabout 136 billion Euro net debt. Of which 98 billion Euro are net financial debt, without leasing. They, in the first quarter, have decreased against the preceding quarter by 2.5 billion Euro. Our debt ratio will improve already also alone by our increasing operation earnings (ebitda). When we will increase our ebitda in a sustained way, then I am also not forced, to lower the debt significantly. But we have an ambitious target: The targeted debt range is 2,25 to 2,75 as factor of the total net financial debt, including leasing, to the restated ebitda: There we are not yet for a while, but we want to be there by 2024. In the meantime, all three big rating agencies are reflecting in their evaluations, that in an operating manner we are on a solid way, in order to attain our targeted objectives.

The Telekom must refinance this year 7 billion Euro. Will you soon tap the capital market ?

In the present year the situation is relatively relaxed. The number, which you mention, is the maturities of all group companies 2022. T – Mobile US this year has maturities of roundabout 3.9 billion Dollar and is financing itself. Above that it has repaid a Group internal refinancing. In addition, the divestment of T – Mobile NL has brought us a cash flow of roundabout 4 billion Euro. For taking up debt capital we are therefore looking at the second half year. Here we can imagine to issue a sustainable bond.

Telekom Group in the first quarters 2021 and 2022

Sales, Billion €	**2021**	**26,4**
	2022	**28,0**
Ebitda AL, restated, Billion €	**2021**	**9,2**
	2022	**9.9**
Restated Earnings per Share, in €	**2021**	**0.25**
	2022	**0.45**
Net Corporate Debt, Billion €	**2021**	**129,5**
	2022	**136,0**

Rating:	**Moody´s**	**Baa1 / stable**
	Standard & Poor`s	**BBB / stable**

Green Bonds are in the trend. Also in the industry, where other corporations already show interest savings which they achieve by conformity to ESG criteria. What do you expect ?

For us this will be a first experience, because so far we have not yet issued such a bond. Also , we are not issuing it for commercial reasons, but because we have given ourselves defined ESG targets. In so far it is also a signal to our inside. In addition to this, we have to first see, to which higher level interest rates will move in the fourth quarter. The is presently an increasing trend, especially at the longer end, and with a view to inflation we have to expect, that over the longer term, we shall not see any more the interest rate level, to which we have been used in the past years.

How high then is the interest expense of the Telekom, respectively the average interest rate ?

We have in the Group an interest expense of 3.9 billion Euro for the financial debt, without leasing. Of this, 85 % relate to the US business. All present financings in the USA have a fixed interest for an average maturity of ten years., In addition, in the coming years, here several old Sprint bonds with coupons between 6 and almost 8 percent are expiring. We have, with net financial debt, without leasing, outside the USA, of roundabout 32 billion Euro an interest expense of roundabout 0.6 billion Euro. The reason for this is naturally, that we are coming out of a time of extremely low interest rates. Here, that is at the liabilities ex USA, we expect, on the basis of present forecasts, in the capital market in the current year a low double digit amount as expense from rising interest rates.

Telekom Group, Shareholder Structure

as of December 31, 2021

KfW Bank	**16,6 %**
Federal Republic of Germany	**13,8 %**
Softbank	**4,5 %**
Institutional Shareholders	**47,7 %**
Private Shareholders	**17,4 %**

Market Capitalisation,

as of **August 31, 2022** **93,4 billion €**

A significant improvement of the financial leeway is promising the divestment of the cell towers, which has been announced since long. Do you have in the meantime in these negotiations a price range ?

Please understand, that we are not commenting on ongoing M & A processes and speculations. We are registering a high interest in a transaction from various sides. This shows, that we have an attractive asset. We are presently checking, whether a transaction is possible, an if yes, how it could look like. At our decision, the valuation is an important but not the only criteria. This necessitates diligence, therefore we have quite consciously not given a time frame for the decision.

But you have certainly planned a certain reallocation of the financial means ?

Once again: At first we complete the process of the strategic evaluation. At the end of it stands the decision, whether we have a transaction with the cell tower portfolio, or not, and when yes, how this looks like. Please understand, that we will not distribute the fur of the bear, before it is caught. Independently of this, we have three priorities in our Group and Finance Strategy: 1. To attain the threshold of 50,1 % at T - Mobile US, 2.We want to invest, on both sides of the Atlantic, the necessary means for our clear network leadership, be it at 5G, be is especially also at glass fiber. 3. The return into our debt range.

As is heard of, Telekom is negociating with Vodafone respectively Vantage Towers about the creation of a "national Champion" in mobile phone infrastructure - in accordance with the model Italy one could say. There, the deal was approved by the European Union on the basis of an Open Access. Should this here not be acceptable in view of the enormous market power, would you also generate a regulated Champion ?

Once again: We are not commenting on speculations in the media. But it is clear, we do not need more regulation in Germany. We have a competitive market at the cell towers.
Alone the new fourth network operator 1 & 1 has contracts with 4 suppliers. In addition, you must not forget, that we just want the thirdparty business. Our Co-location ratio presently is about at the same level as at other cell tower companies. That means, we today already have to a significant degree other mobile phone network operators on the network transmission masts. And we do want to have more thirdparty business for the transmission locations.

The party – mood at M & A has been somewhat dimmed recently, also as to the valuations. How have they developed from your point of view ?

One of course can see that valuation decreases have happened, especially in the tech range. And they are not insignificant. They not only take place at the stock exchange, but also in the venture capital field. Telecommunication infrastructure in my view continues to be a looked for investment category, also even though here and there valuation corrections have taken place at stock exchange listed players. This however in my view is due to rising interest rates and not due to a deteriorated environment.

When do you expect a closure of the project deal ?

We are making a Strategic Review - this can lead to a transaction, or also not. We there have no pressure for activity. We have said at the beginning of the process quite consciously, that we do not define a time frame for this process. This continues to be so.

How from your point of view are in Brussels the framework conditions for a deal, which eventually may call for regulatory decrees ?

That the European telecommunications market has too many players, which operate within too small segments, is still totally undisputed. In so far it is good, when in one country one promotes the consolidation. We have good experiences with this, for instance in the Netherlands and in Austria. This strengthens the competitiveness in the market and thus the customers benefit from this. We also encourage our competitors, to think alongside these dimensions, because this creates a greater critical mass.

Sometimes still the deconsolidation is tried, also the de-merger in Service and Infrastructure., among others at Telecom Italia or also at BT. Will there the Telekom package play a role ?

Our share at BT is invested in the pension assets, which we have deposited for the corporate pensions of our employees. Now, fortunately, BT has signaled, that it wants to again pay a dividend. For this reason we have deposited our share into the pension assets, in order that they benefit from this.

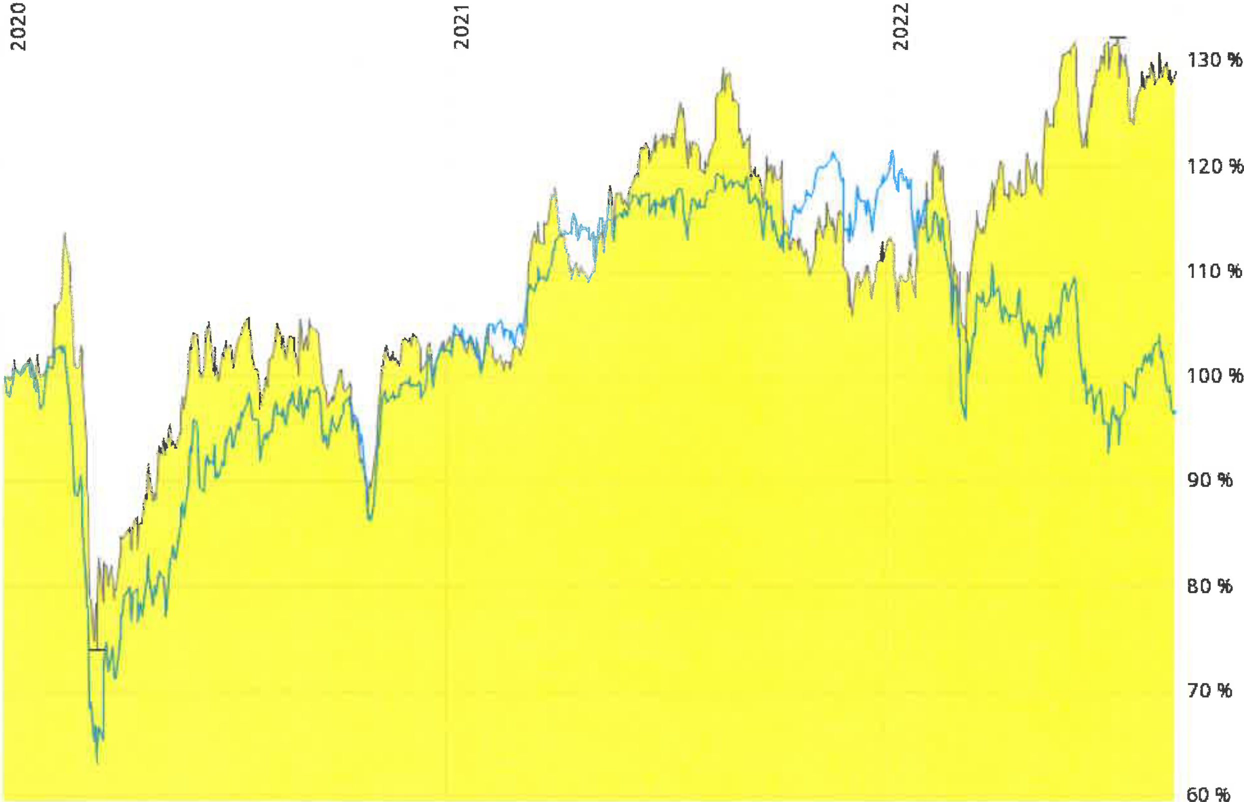
So in any case you want to continue to own the BT package ?

The share package serves the purpose of fulfilling our obligations from our corporate pension scheme. For this reason it is lying in the pension assets and there it is lying well.

Telekom AG, 18,78 € Share Price as of August 31, 2022, on German Stock Exchange Xetra

Index Chart, Index-base as of January 1, 2020 = 100

-Black Line: Telekom AG Share
-Blue Line: Dax 40 = German Large Cap Companies Stock Performance Index



You have opened the network of the Telekom already for third parties, in order to finance the buildup of the glass fiber network. Are further transactions imaginable, such as the infrastructure fund IFM ?

We have regionally put on track many different partnerships and we cooperate with city network operators, cities and community entities, in order to accelerate with their infrastructure the buildup of glass fiber networks. Naturally we will show ourselves as open. In so far I would not exclude this. Presently, though, we are fully busy.

How are developing the cost for personnel adaptations at the Telekom, perspectively, will they occasionally decrease ?

This fluctuates in a narrow band range. Personnel rearranging always goes along with exceptional charges. Therefore it happens at us without noise. We have in the past four years in this way reduced net roundabout 17.000 jobs. And we shall have to continue to become slimmer.

What is the cost per year ?

The expenses here are always in the range of 1 billion Euro.

An ongoing restructuring situation is the business customer division T - Systems. Are there plans for a partial divestment ?

The restructuring there will continue. We also already have sold parts, the subsidiary in South Africa, the mainframe-business to IBM, and we have withdrawn from the desk top business. This is permanent hard work, especially in the classic IT business, where we shrink. On the contrary, we build up new business areas, which are growing, especially in the Cloud and at the Digital Services. The objective of this transformation process is that these areas are strengthened so much, that the relationship turns around and that they have more business weight, than the Legacy areas.

When will this be the case ?

At last, the turnover of T – Systems has shrunk by 1,9 %. Perspectively we want to grow turnover by 1 percent. Here we see signs for a stabilization especially also, when one takes into account the intended portfolio restructurings. At the restructured ebitda we are planning 5 % growth. At this we are benefitting also from our restructuring measures. It will still take a while, until we get closer to our objective. Here I do not want to name a time frame.

Are, until then, further part-divestments planned ?

This we do not exclude. We have always said, that we will divest single areas, for which there are better owners. As we also have already done so.

Your big competitor Vodafone has problems in the German market. Does Telekom benefit from this ?

At the beginning of 2020, when Vodafone for the first time has announced its 1 - Gigabite – Offer for 40 Euro, the capital market was afraid that this would have negative consequences for us: that we would have to lower prices, or would otherwise lose customers. The fears proved

to be unjustified. We since continue to be on our way with a net new customer share of over 50 % in the broad band market. This among other reason is so, because customers in the fixed network not only value broad band, but also value the trademark, the service and the stability. We therefore have presently a good amount of customers coming to us, and this I also expect for the total of this year.

The interview was made by Heidi Gohde.

About the person

The role of the CFO of Deutsche Telekom at other times was already significantly less stressful than presently; when not only financial debt, but also costs were much too high, and when sales and earnings were too weak. Christian Illek, who took over the job at the beginning of 2019 from Thomas Dannenfeld, found a broadly positioned Group at both sides of the Atlantic, after the Mega-Deal with Sprint in the USA was already negotiated, though not yet approved. There is though no lack of work for the Chemist with a PHD: Open financing subjects are the increase of the majority investment at T – Mobile US, the buildup of glass fibers in Germany and the reducing of the financial debt mountain. At this not insignificant act of power, it should be helpful for Illek, that he knows best Telekom from all sides. Apart from a three year intermezzo at the top of Microsoft Deutschland, the manager is in the Group since 2010.

From Börsenzeitung, Frankfurt am Main, Germany, June 15, 16, 2022. Responsible for English translation: GEFIU, now renamed into CFO Forum Deutschland, the Association of Chief Financial Officers Germany, the German IGTA Member Association, translator: Helmut Schnabel

Luxemburg, Article: Evangelisation of Treasury Functions

By **François Masquelier**, Chair of ATEL – Luxembourg,
The Luxemburg IGTA Member Association, CEO of
*Simply*TREASURY – Luxemburg, June 2022

It seems that the evangelization of corporate treasury is necessary and that it is necessary to preach the "good word" because the function has lost its aura and its power of attraction over the last few years, while the function has evolved incredibly. It is paradoxical to see a function evolve so strongly and lose its power of attraction. It is the duty of treasurers' associations and all stakeholders to remedy this situation and to restore the image of treasury to bring back to it students, financiers in search of training and others. And finally, the profession is facing a huge need for more diverse (soft and hard) skills than ever before. The risk is there, and therefore it is time to react. #510

Lack of cash resources and vocation in treasury

The treasury function, like many other businesses, has a problem of available resources. There is a lack of staff and resources to properly staff our treasury departments. The COVID crisis and lockdowns have not helped the situation and have even made it worse. Home working is becoming such a precondition that no one successfully hires in treasury without offering at least some work to be done from home. The lack of resources is compensated by a sharp rise in wages and inflation. Companies compete to attract talented treasurers and it is not an ideal situation. In this context, training is necessary and even vital. Unfortunately, there is also a crisis of vocations. So, we have less students in treasury courses and in Universities (for treasury masters when they exist) and more competition with banks or fintech's who are big consumers of this kind of resources. The problem is the lack of attractiveness of treasury courses / training. The profession appears to be less "sexy" and attractive than it used to be. Paradoxically, the function has never stopped growing and expanding.

It seems obvious that this is a major challenge for treasurers' associations. They must play their role as federators, as attention-grabbers and as creators of vocations. Vocation is something that is created. It does not come naturally and without effort. It therefore seems to me that we should, like other stakeholders, help to make the profession sexier, to better describe it, to better promote it in order to attract more young and future treasurers. The task is not simple but achievable if we work on it in a coordinated way.

How to attract then?

One of the avenues to explore is to describe the incredible evolution of the profession, its scope, variety, importance and the areas affected, those that attract, such as crypto-currencies (which excite young generations), M&A transactions, private equity, IT coding (i.e. data coding), cutting edge technologies, sophistication of the function, IPOs and listing on stock-exchanges, rating agencies and initial rating search, application and compliance of new regulations with especially the ESG aspect (which has become an unavoidable element for young people who want "more responsible" and above all more virtuous business companies, etc... They want to “be part of it” and want more rhythm, dynamism, novelty, modern technologies, less repetition, less EXCEL sheets, less manual boring work and more automation, AI, and data mining. They want more hybrid roles with broader skills. These different talents could then have a role to play, give them the importance they all hope to have. We need to play on these elements and expectations of young people to attract them and not do what we've always done. That time is definitely over, although many treasurers don't know it...

Paradoxical situation

Isn't it paradoxical to have a function that has evolved so much and expanded in terms of scope, making it more interesting than in the past, a function that is more computerized (i.e., more and more IT tools used) and technical than before, and a profession that has been brought to the forefront because of repeated crises? Obviously YES: it is paradoxical and surprising. If the profession is less attractive, it is because we do not make it or present it

correctly and as it is. It is a question of image. And image is something that needs to be worked on and maintained.

New skills in finance and treasury

People would say we all need people who are “wildly inquisitive”. The skills will be most important in the finance sector in the coming years, for various reasons. Having a critical mind, asking better questions, and approaching things with a growth mindset are increasingly important, an excellent communication capacity and a power of persuasion to convince management of actions. In terms of hard skills, it is the same problem. We need more diversified skills like IT and coding skills, to face new challenges. We need more analysts, people able to understand, explain, recommend, and eventually act.

Digital capability and capacity to learn and adapt

Treasury departments are increasingly looking for 2 key elements when recruiting. First, the ability to digitally utilize and harvest the wide body of codified information so that real trends and insights can be gleaned from it. Anyone can have access to an overwhelming amount of data, but it takes an analytic mind to be able to scrutinize that data and convert it into meaningful answers for an organization. The second factor is search for people who can learn, are wildly inquisitive and brave enough to ask questions to better understand and recommend ad hoc solutions. Treasurers need to go beyond conventional wisdom. Diversity of backgrounds, diversity of profiles and cultures may help finding the right talents, ready to learn about a broadening profession. Curiosity remains a key quality to have to face challenges and cope with them.

Sell yourself better

As we can see, Treasury Associations and their members must work to better "sell" their profession and attract more young talents. This is one of the major challenges, yet it is rarely highlighted. As if it wasn't a problem when in fact it is a weak link in the chain. We must now ask ourselves how to remedy it intelligently. We must demonstrate and explain why our profession is one of the most interesting, changing, evolving and dynamic, with an enormous financial importance. To be complete, we must also admit that the CFO's could also enhance the value of this profession and help to make it more attractive. Here we are far from this desired, desirable, but still idyllic situation, alas.

Disclaimer: This article was prepared by François Masquelier in his personal capacity. The opinion expressed in this article are the author’s own and do not necessarily reflect the view of the European Association of Corporate Treasurers (i.e., EACT).

Luxemburg, Article: **Deglobalisation as Booster of FX Volatility**

By **François Masquelier**, Chair of ATEL – Luxembourg,
The Luxemburg IGTA Member Association, CEO of
*Simply*TREASURY – Luxemburg, July 2022

Deglobalisation as Booster of FX Volatility

For obvious reasons, this year the Foreign Exchange markets have increased in volatility. There are many reasons for this incredible situation post-covid. As the same time, we also faced an interest rate increase. Nevertheless, what was surprising was the fast pace, consequence of high inflation. In the troubled economic environment, we are facing, the best performing currencies were USD, CHF and even RUR (at least in H1,2022). But there has also been an incredible phenomenon of de-globalization of the economy, encouraged by COVID, repeated lockdowns and the war in Ukraine. Have we entered a new era for the economy and what impact will this have on cash management?

Deglobalization versus globalization *(*)*

A phenomenon of de-globalization has been observed for some time. After a long period of globalization and even more recently of "hyper-globalization", suddenly everything changes. This can be explained by the successive crises we have had to face: the covid, the blocked Suez Canal (by a single ship), the war in Ukraine, the soaring cost of transport, soaring commodity prices, uncontrolled inflation, etc.

By having over-concentrated our supplies and increased our dependence on certain suppliers in an exaggerated manner, we have seen what situations this can lead to. At the same time, we have seen ports blocked in China, which has had the effect of shifting the world production of essential components or products. As a result, it takes a year to get a bicycle or more for a car when some options on vehicles are not removed because of a lack of electronic chips or components. The unexpected Chinese confinements; the rising oil prices penalizing maritime transport, the closing of ports in Asia, etc... did not help to improve the situation and the delay taken during the Covid.

We knew that a perfect world did not exist, and that international trade pushed us to buy wherever the goods were cheapest. But is this still the right strategy? Should we look for the cheapest or diversify and "on-shoring" production more than "off-shoring"? This is the question that arises. We have now moved into a new epoch in the history of the postwar global economic order. We entered in an era of world disorder. It is possible (perhaps even probable) that the international system will shatter. How in such a world might liberal trading order be sustained? With great difficulty, we think.

Weak currency, advantage perhaps but to what extent?

Divergent central bank policies do not help to harmonize, stabilize, and balance financial markets and exchange rates. The colossal debts incurred during the Covid must be repaid. With inflation soaring, states must prepare to service this huge debt. Their policies will therefore vary from case to case. And, for example, a weak Yen (i.e., JPY) may appear as an opportunity for Japan to export. However, at a certain level, a country with no raw materials, like Japan, will see its imports soar. The situation will then become penalizing. So, a weak currency is beneficial up to a certain point.

For all these reasons and others, especially ecological ones, we want to produce more locally, to buy here to limit transport costs which are not compensated by the low prices of the products bought. Globalization and buying elsewhere loses its attractiveness.

A wave of ESG, a desire to no longer depend on a few exotic suppliers, a feeling of protection and nationalism, a need not to be able to wait for materials to be delivered and a sudden desire to refocus on one's own country, have made de-globalization all the rage. Isn't it time to rethink our strategies to aim for resilience and not just the best price?

And a stronger Dollar (i.e., USD) makes life tough for emerging economies. It tends to depress global trade growth. It tends to make the world poorer and less engaged in trade. It also erodes the creditworthiness of developing countries that have debt denominated in USD. A stronger USD is also an inconvenience for China, impacting Asian emerging economies too. Eventually it is inflationary for emerging countries.

De-globalization and efforts to make supply chain more resilient may impact future flows of foreign direct investment to emerging economies. It means, all-in it is not good news for all - non-USD economies, unless the strengthening of Dollar remains reasonable (it is not the case now).

When everything goes wrong, the winners are the safe currencies

With the FED leading the way, it is no surprise that contracts have all moved in favour of USD. In times of crisis, some currencies stand out from the crowd and come out on top. Guess which ones? We can see that the markets are moving to focus on currencies considered less risky than others.

Of course, having a weak currency can boost your exports. On the other hand, a currency that is too weak can increase your purchasing costs for raw materials and other imported products. So, it is useful to a certain extent. In FX, as in everything else, too much can be detrimental.

Rising interest rates may also create swap points huge differences on certain currency pairs, penalizing (depending on which way you look at it) and reducing the desire to hedge.

We can reasonably assume that the world, after having globalized (excessively), will have to de-globalize and is in the process of de-globalizing. The diversification of supply sources, the desire to reduce costs and carbon footprint, will take over. The future will be different and more local (at least for what can be produced here). The differences in labor costs that remain will fade or be erased by the cost of transportation. What is the point of buying a shirt made in China if it costs as much as a French shirt produced in Portugal? The combination of different factors, including ecology, will push to see more local.

Currency volatility could then be reduced... or more precisely it could return to more "normal" and "classic" levels. As always, movements can be absorbed by the markets if they are not too fast, violent, and sudden. Until globalization forces re-emerge (what we doubt) the post-pandemic and Ukraine war world will remain one of high foreign exchange volatility.

Consequences for treasury management

No one can say whether de-globalization is truly launched and irreversible. Nevertheless, in such a context, the treasurers must adapt to survive. They start by reviewing their currency hedging strategy. Is it still adapted to the environment? Shouldn't we hedge more and better?

A crisis is the perfect opportunity to revisit one's FX policy and to rethink one's FX hedging. However, this cannot be done without a review of the systems. It is always surprising to hear treasurers thinking that everything is under control and automated, when they only see the trade or the best execution and the post-trade part. They forget about the pre-trade part, which is the most important. So, in such circumstances with such volatility, automation is the key to survival. Then the review of policies and strategies to be perfectly aligned with the applied processes, at the risk of inefficiency and exchange losses.

If I had some advice to give, it would be to revisit this pre-trade part and automate it with an *ad hoc* tool. For example, KANTOX or FIREAPP, as there are few CMA (i.e., Currency

Management Automation) tools. I would also advise to revisit your strategy and adapt it to the new market circumstances, to mitigate as much as possible any negative P&L impacts, while making internal controls and processes more robust and resilient.

(*) Deglobalization is an awkward word for a phenomenon that makes investors and businesses anxious. The last time the world experienced it on a significant scale, between 1914 and 1945, was one of the darkest periods in history, encompassing two world wars, economic depression, and trade protectionism

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Luxemburg, Article: Partnering, the necessary new way to success in treasury

By **François Masquelier**, Chair of ATEL, the Luxemburg IGTA Member Association, CEO of *Simply*TREASURY – Luxemburg, June 2022

Partnership is the new path to take in treasury to seek success. Indeed, more than ever, the treasurer must come down from his tower (some would say ivory tower) and be closer to operations, but not only. From the recent crisis, we have drawn conclusions: we must centralize more, automate more, but also collaborate better with all stakeholders to play a more effective and above all more strategic role. This inevitably requires more partnership with both external and internal counterparties.

Business partnering, key target for treasury

The PwC Global Treasury survey found that of the top five priorities for any treasurer worldwide, business partnering was number one. This reveals the need for much more and better collaboration with stakeholders, both internal and external. Rethinking our strategic role

requires more digitization but also better cooperation with other departments, subsidiaries, and even external counterparts. Of course, the treasurer has always worked with several counterparties because his position within finance was one of the most central. But it turns out that the partnership should be extended, developed, and improved for more efficiency in financial management. We will give a few examples, including payment and fund collection methods, which is revolutionizing B2C, currency risk hedging and counterparty invoicing or payment in foreign currencies if the management is centralized, dynamic management of Supply Chain Finance and Discounting, to name a few, and Reverse Factoring. The reduced dependence on bank loans, for example, driven by the Capital Market Union (CMU) of the Vander Leyen Commission, will force more recourse to the capital markets.

As we will see, there are a thousand reasons for the treasurer to diversify his or her partnership relationships with third parties. The treasurer should be more involved and upstream in M&A transactions. Projects like Working Capital Optimization or Trade Finance Optimization are clear examples of multi-level and (too) many players. Success only comes with strong CFO sponsorship, a good project organization, effective collaboration or partnership and performance incentives. Without pretending to be exhaustive, my last example concerns the co-creation solutions developed with some pro-active banks and other fintech's or API's. Here again, we see the usefulness of working together for the benefit of all.

Types of partnerships - Three levels

The partnership is articulated at three levels: (1) the first level is that of the entity itself and its departments, in this case finance. The second level (2) is at the level of operations and subsidiaries around the world. And finally, the third level (3) is located around the other stakeholders, including suppliers and customers, banks, etc. In this last level, we must distinguish two sub-levels: there are those who deal directly with products or services with the company (operating level) and those who deal with financial or IT services or products (IT & financial services).

Of course, you will think that you are already collaborating fully with all these stakeholders. But are you doing it enough? Have you made the most of these relationships and created, imagined, shaped more effective solutions or management techniques? Have you created value? Because that's the whole point: how to create more value through optimized cash management. It's not as simple as it sounds, and many people mistakenly think they know all about collaboration and partnership.

Partnership, a state of mind, a new culture

Partnership, as described, is about improving efficiency to be more resilient and robust in the face of the next crisis that will inevitably hit us soon. But this goal of partnership requires a different mindset. It requires a new collaborative mindset that is often missing. Home working may have killed any desire to cooperate, or at least not facilitated it. By working on specific and clear projects, one can easily measure the results and the value created. Working in silos is no longer appropriate, I'm afraid. Silos need to be more permeable internally, but also with affiliates and other suppliers or customers, operational or not. This also requires more "soft

skills" which are also too often lacking. It is necessary to communicate better and dialogue is the preliminary to collaboration. What can treasury bring to a third party? This should be the question that treasurers ask themselves all the time. I don't know many treasurers who measure the satisfaction of their customers. Yet it is a powerful "incentive" to reward treasury as a bonus. It can become an excellent performance KPI.

Role of CFO's in fostering the culture of "partnering"

So, this partnership culture must be instilled by the CFO, the treasurer and become part of the culture. It needs to be encouraged and supported, to achieve successful results and better cash management. Perhaps this applies to other departments in the company. I can't say. But treasury, without question, is the perfect laboratory for testing, designing, and implementing it. No collaboration is worthwhile if it doesn't generate value in some form. To achieve this goal, discussion with colleagues and suppliers/customers is essential to better understand the business and its attributes. For example, to properly hedge foreign exchange risk, one must understand the arcana of field operations and constraints. From this understanding of the specifics of your business will come the idea of a partnership to develop. It is important for the C-suite to pay close attention to this approach and to encourage it (sometimes by rewarding it). Partnership can enable the treasurer to become a more strategic and essential player in the company. This is one of the major challenges of the years to come. It is up to us to roll up our sleeves.

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UK, Article: Medium-sized businesses must focus on their ESG strategy if they are to secure new financing from lenders in the future

By **Philip Smith,** editor of The Treasurer**,** magazine of ACT, Association of Corporate Treasurers, UK, the British IGTA Member Association, from website edition www.treasurers.org/hub/treasurer-magazine/esg-takes-hold-midmarket, July 2022

According to professional services firm Grant Thornton, nine out of 10 UK lenders (93%), from the largest clearing banks to smaller alternative finance providers, expect environmental, social and governance - (ESG-) related lending in the mid-market to increase in the next few years. A similarly large proportion of lenders (85%) say that a firm's ESG status, or its ability to transition to net zero, influenced their credit risk assessments.

The news comes after the Loan Syndications & Trading Association in the US revealed that global loan markets hit a new record with more than \$ 681 bn (Pound 555 bn) of green and sustainability-linked lending last year, a 275 % increase over the \$ 181,7 bn raised in 2020. While green lending is clearly established among lenders to larger corporates, some 68 % of lenders report that less than 10% of their existing mid-market lending is green or sustainability linked.

But, as the Grant Thornton survey found, this is set to change in the coming years. When looking at new mid-market lending, a third of lenders surveyed say that sustainability-linked loans (SLLs) accounted for 11-25 % of new loans being advanced, while 30 % of lenders say the proportion of new SLLs was over 26 %.

And of the 93 % of lenders expecting ESG lending to increase, half say it will increase "significantly".

Restricted Access

"The key point is that there is no doubt that lenders are focusing more and more on ESG matters", says Jon Bramwell, director of UK Debt Advisory at Grant Thornton. " Large corporates have more bandwidth to deal with this, but if mid-market firms don´t pay attention, access to cost-effective credit will become more restricted."

Bramwell observes that banks and non-bank lenders have made commitments towards transitioning to net zero by 2050, and that each loan is part of this "transitory story". He adds that this is not just about traditional lenders – private equity funds also want to be able to demonstrate good sustainability credentials.

Not only that, but also mid-market businesses can form an important part of larger businesses´ supply chains and are therefore considered part of their eco-system for ESG measurement. "This will drive ESG right into the heart of the mid-market," Bramwell says.

“Key performance indicators (KPIs) for ESG performance will be measured every year. This is voluntary at the moment, but that could change in the future,” he says.

Baked in

Bramwell predicts that failure to demonstrate good ESG credentials could cost borrowers up to 25 basis points on the cost of their credit facilities. At the same time, amid growing fears of ´greenwashing´, ESG-based KPIs will become more rigorous and suitably challenging.

“Currently there is no standardised approach to measuring performance as it is a relatively young discipline, but in the future, these will be baked into the lending process, which will have an impact on capital availability for individual firms,” Bramwell says. “Treasurers will be able to help their firms articulate this as ESG becomes an intrinsic part of the process

Driving change

ESG issues were firmly on the agenda at the recent ACT Annual Conferenc in Liverpool, with a range of sessions devoted to exploring how ESG increasingly informs many decisions made by investors, treasurers, asset managers and banks.

“Sustainability is such a broad topic, and it is certainly true that many larger companies have adopted net zero targets, but looking into the mid-market the picture does change”, said Robert King, head of sustainable finance at HSBC at a special session run by international banking group BNP Paribas.

Those companies generally do not have that target, although many of them are in the others´ supply chain, so that is driving change from the buyers”, he said.

Jerome H Powell: Monetary policy and price stability

Speech by Mr Jerome H Powell, Chair of the Board of Governors of the Federal Reserve System, at the “Reassessing Constraints on the Economy and Policy” economic policy symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, 26 August 2022.

* * *

Thank you for the opportunity to speak here today.

At past Jackson Hole conferences, I have discussed broad topics such as the ever-changing structure of the economy and the challenges of conducting monetary policy under high uncertainty. Today, my remarks will be shorter, my focus narrower, and my message more direct.

The Federal Open Market Committee's (FOMC) overarching focus right now is to bring inflation back down to our 2 percent goal. Price stability is the responsibility of the Federal Reserve and serves as the bedrock of our economy. Without price stability, the economy does not work for anyone. In particular, without price stability, we will not achieve a sustained period of strong labor market conditions that benefit all. The burdens of high inflation fall heaviest on those who are least able to bear them.

Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain.

The U.S. economy is clearly slowing from the historically high growth rates of 2021, which reflected the reopening of the economy following the pandemic recession. While the latest economic data have been mixed, in my view our economy continues to show strong underlying momentum. The labor market is particularly strong, but it is clearly out of balance, with demand for workers substantially exceeding the supply of available workers. Inflation is running well above 2 percent, and high inflation has continued to spread through the economy. While the lower inflation readings for July are welcome, a single month's improvement falls far short of what the Committee will need to see before we are confident that inflation is moving down.

We are moving our policy stance purposefully to a level that will be sufficiently restrictive to return inflation to 2 percent. At our most recent meeting in July, the FOMC raised the target range for the federal funds rate to 2.25 to 2.5 percent, which is in the Summary of Economic Projection's (SEP) range of estimates of where the federal funds rate is projected to settle in the longer run. In current circumstances, with inflation running far above 2 percent and the labor market extremely tight, estimates of longer-run neutral are not a place to stop or pause.

July's increase in the target range was the second 75 basis point increase in as many meetings, and I said then that another unusually large increase could be appropriate at our next meeting. We are now about halfway through the intermeeting period. Our decision at the September meeting will depend on the totality of the incoming data and the evolving outlook. At some point, as the stance of monetary policy tightens further, it likely will become appropriate to slow the pace of increases.

Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy. Committee

participants' most recent individual projections from the June SEP showed the median federal funds rate running slightly below 4 percent through the end of 2023. Participants will update their projections at the September meeting.

Our monetary policy deliberations and decisions build on what we have learned about inflation dynamics both from the high and volatile inflation of the 1970s and 1980s, and from the low and stable inflation of the past quarter-century. In particular, we are drawing on three important lessons.

The first lesson is that central banks *can* and *should* take responsibility for delivering low and stable inflation. It may seem strange now that central bankers and others once needed convincing on these two fronts, but as former Chairman Ben Bernanke has shown, both propositions were widely questioned during the Great Inflation period.[1] Today, we regard these questions as settled. Our responsibility to deliver price stability is unconditional. It is true that the current high inflation is a global phenomenon, and that many economies around the world face inflation as high or higher than seen here in the United States. It is also true, in my view, that the current high inflation in the United States is the product of strong demand and constrained supply, and that the Fed's tools work principally on aggregate demand. None of this diminishes the Federal Reserve's responsibility to carry out our assigned task of achieving price stability. There is clearly a job to do in moderating demand to better align with supply. We are committed to doing that job.

The second lesson is that the public's expectations about future inflation can play an important role in setting the path of inflation over time. Today, by many measures, longer-term inflation expectations appear to remain well anchored. That is broadly true of surveys of households, businesses, and forecasters, and of market-based measures as well. But that is not grounds for complacency, with inflation having run well above our goal for some time.

If the public expects that inflation will remain low and stable over time, then, absent major shocks, it likely will. Unfortunately, the same is true of expectations of high and volatile inflation. During the 1970s, as inflation climbed, the anticipation of high inflation became entrenched in the economic decisionmaking of households and businesses. The more inflation rose, the more people came to expect it to remain high, and they built that belief into wage and pricing decisions. As former Chairman Paul Volcker put it at the height of the Great Inflation in 1979, "Inflation feeds in part on itself, so part of the job of returning to a more stable and more productive economy must be to break the grip of inflationary expectations."[2]

One useful insight into how actual inflation may affect expectations about its future path is based in the concept of "rational inattention."[3] When inflation is persistently high, households and businesses must pay close attention and incorporate inflation into their economic decisions. When inflation is low and stable, they are freer to focus their attention elsewhere. Former Chairman Alan Greenspan put it this way: "For all practical purposes, price stability means that expected changes in the average price level are small enough and gradual enough that they do not materially enter business and household financial decisions."[4]

Of course, inflation has just about everyone's attention right now, which highlights a particular risk today: The longer the current bout of high inflation continues, the greater the chance that expectations of higher inflation will become entrenched.

That brings me to the third lesson, which is that we must keep at it until the job is done. History shows that the employment costs of bringing down inflation are likely to increase with delay, as high inflation becomes more entrenched in wage and price setting. The successful Volcker disinflation in the early 1980s followed multiple failed attempts to lower inflation over the previous 15 years. A lengthy period of very restrictive monetary policy was ultimately needed to stem the high inflation and start the process of getting inflation down to the low and stable levels that were

the norm until the spring of last year. Our aim is to avoid that outcome by acting with resolve now.

These lessons are guiding us as we use our tools to bring inflation down. We are taking forceful and rapid steps to moderate demand so that it comes into better alignment with supply, and to keep inflation expectations anchored. We will keep at it until we are confident the job is done.

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[1] See Ben Bernanke (2004), "The Great Moderation," speech delivered at the meetings of the Eastern Economic Association, Washington, February 20; Ben Bernanke (2022), "Inflation Isn't Going to Bring Back the 1970s," *New York Times,* June 14.

[2] See Paul A. Volcker (1979), "Statement before the Joint Economic Committee of the U.S. Congress, October 17, 1979," *Federal Reserve Bulletin,* vol. 65 (November), p. 888.

[3] A review of the applications of rational inattention in monetary economics appears in Christopher A. Sims (2010), "Rational Inattention and Monetary Economics," in Benjamin M. Friedman and Michael Woodford, eds., *Handbook of Monetary Economics,* vol. 3 (Amsterdam: North-Holland), pp. 155–81.

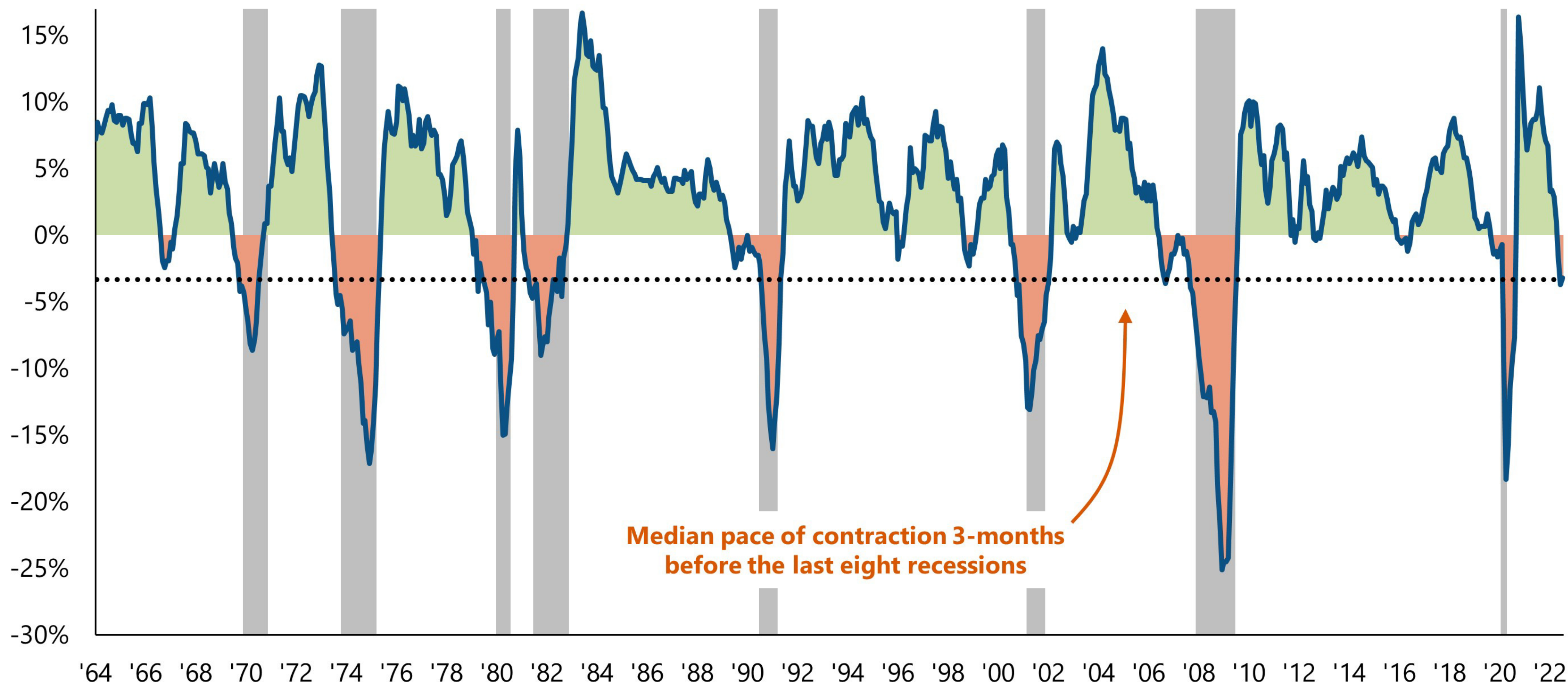
[4] See Alan Greenspan (1989), "Statement before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, February 21, 1989," *Federal Reserve Bulletin,* vol. 75 (April), pp. 274–75.

Leading The Way Down

Conference Board's Leading Economic Index

For The Week Ending 08/19/2022

6-Month Annualized Percent Change



Source: Conference Board

Existing home sales tumbled to 4.81 million units (annualized) in July—a 20% year-over-year decline and the most significant one-year drop since early Covid. Although the optimists among us hope the economic weakness is contained to housing, unfortunately, the story is broader. The Conference Board's Leading Economic Index includes ten variables that track the economy's health and "anticipate turning points in the business cycle by around seven months." Unfortunately, the indicators are "flashing red" in July as the index notched a fifth consecutive monthly decline. Worse, the six-month annualized change of the index is now -3.3%, which matches the median pace of contraction in the index three months before the start of every recession since 1964. So, at the risk of being extremely unpopular at late-summer soirees (especially given the recent rebound in equity prices), it must be said that the leading indicators paint a cautionary tale.

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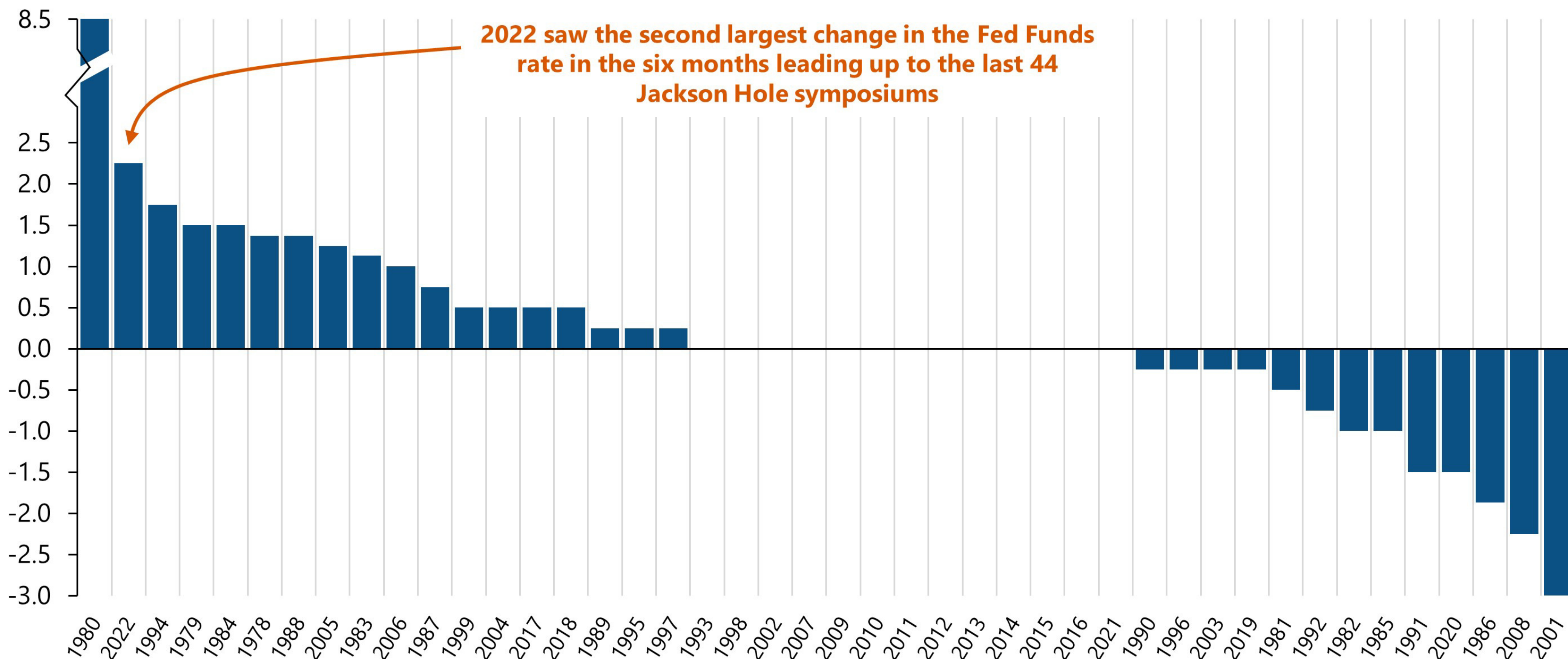
Central Bank Summer Camp

Change in Federal Funds Rate Prior To the Jackson Hole Economic Symposium

For The Week Ending 08/26/2022



Source: Federal Reserve, Payden Calculations

In some places, sending kids off to summer camp is a rite of passage. A summer sojourn to Jackson Hole, Wyoming, for the annual Kansas City Fed-hosted monetary policy conference, is summer camp for central bankers. Explore overlooked ideas. Interact with colleagues with different perspectives (around a campfire?). Rarely has the confab occurred at a more pivotal monetary moment, though. Sure, we'll never forget the time in 2005 when Raghuram Rajan asked the conference whether financial system developments had made the world riskier (he was mostly ignored). But not since the early 1980s has monetary policy tightened as sharply in the six months leading up to Jackson Hole as we've seen in 2022. Interestingly, the six months *after* the '81 gathering featured a sharp about-face by the central bank. Will Powell pivot in a similar fashion this year? Unfortunately, we doubt central bankers will have that luxury. By the 1981 meet-up, inflation had definitively peaked and was rapidly decelerating. This time around, inflation continues to ruin everyone's summer vacations.

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