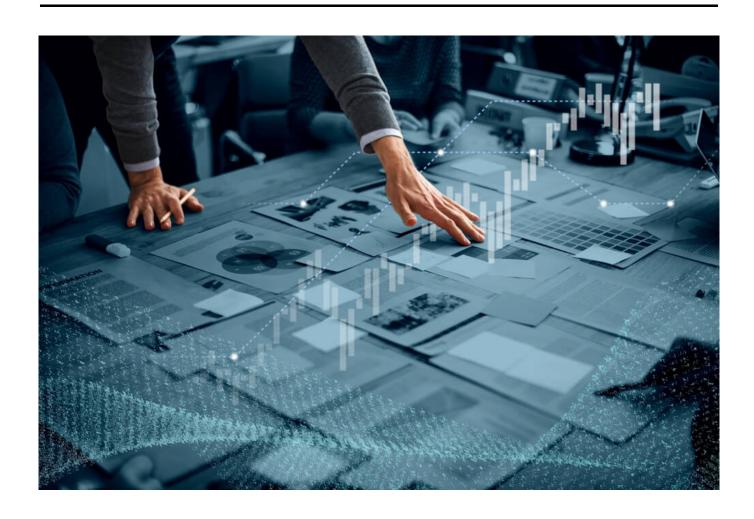


Analysis of today Assessment of tomorrow



By: Emre Alkin

What should company managers in developing countries do in turbulent times?



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Latin America, and especially Argentina, is known for its historic economic crises. Similarly, Russia has experienced crises in the recent past. Let's not forget South Korea's famous 'chaebol' crisis. The financial crises that Turkey experienced in 1994 and 2001 are still fresh in our memories.

When we delve into the essence of the matter, developing countries that integrated into the world in the 1980s began to produce goods and services for external markets as well as their internal markets.

Some of these firms were the groups or holdings known as "chaebols," producing everything from underwear to automobiles in South Korea. Some even owned banks.

It wouldn't be incorrect to say that the South Koreans were the pioneers of funding or supporting their subsidiaries through their own banks. Notably, these groups also had their own insurance companies and financial institutions.

After the crisis, South Korea was forced to completely reorganise its banking and financial market. A similar development occurred in Turkey in 1994 and 2001. Serious financial problems arose as banks owned by holdings funded their subsidiaries, leading some banks to become part of history.

Consequently, Turkey had to implement a comprehensive banking reform in 2001, and I would say this reform continued for several years. To be frank, these crises changed the government.

The lack of savings

Why am I sharing this? At its core, the biggest problem in developing countries is the lack of savings. For this reason, they need savings from other countries. In order to attract another country's savings, it is necessary to improve the investment environment.

To do this, it must be shown that progress has been made in areas such as justice, law, rights and freedoms, and education. Obviously, for today's leaders, these are long-term tasks. Thus, they embark on a mindset that "low inflation and high growth are enough.

A preference for carry trade is made to reach the result directly. This involves attracting money from the world at high interest rates and promising that the dollar will not rise. Frankly, neither Argentina, Russia, nor Turkey can guarantee this.

Even the Fed has limited power in this regard. However, in countries that manage to hold the dollar rate for a limited time, the following types of problems begin to emerge:

- An eruption in imports and an increase in the current account deficit
- A radical increase in foreign currency borrowing
- The widening gap between inflation and the cost of living.

After experiencing all of this, of course, exchange rates surge, and after what we call "overshooting," they stabilise or even retreat. Unfortunately, many companies go bankrupt, inflation rises again, central banks sell their foreign currency reserves, and the dollar falls into the black market.

What can business owners do on a micro level?

Today, a significant number of countries are going through this cycle again. The wrong prescriptions of economic management have now been compounded by Trump's abnormal behaviours.

Therefore, I decided to write an article for business owners from every country reading these lines, explaining what they can do on a micro level during this painful process accelerated by Trump.

Conditions vary from country to country, but

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everyone is watching global commodity markets related to the raw materials they procure. Naturally, everyone has foreign exchange risk on their balance sheets.

Regardless of the sector, there is blindness occurring in the procurement-funding-revenue triangle, leading to the unconscious acceptance of considerable risks. Therefore, I will summarise my recommendations with these short notes:

Hedging instruments must be used for foreign currency liabilities and purchases. Particularly in raw material purchases, it is essential to take opposite positions in futures markets to avoid losses.

Evaluating offers during purchases must be done with all components under the CFO. The determination of the payment day and method must be made according to previously planned cash flows.

In the face of price drops from the slowing global economy, care should be taken not to overstock or allow stock aging

Budgeting must reach the lowest level within the organisation; demands must be accurately gathered, and income-expense scenarios should be prepared under the control of department heads or unit managers at every level.

While separate budget meetings are held for each department, financing, procurement, and human resources must participate in all meetings.

Requests outside the agreed budget should not be accepted during the period. A situational assessment should be conducted for unforeseen but essential payments to determine whether the demand arose due to poor scenario planning.

Financial tables should undergo stress tests based on various exchange rate levels against the likelihood of sudden currency attacks. It must be checked whether more than 30% of procurement capabilities and sales revenues are sourced from a single company or group. Solutions should be provided for cases exceeding this level.

In the face of price drops from the slowing global economy, care should be taken not to overstock or allow stock aging. Constantly stocking up with available cash reduces the capacity to cover short-term debts with liquid assets and may lead financial institutions to hesitate in lending to such firms. Therefore, the company's liquidity must always be kept strong.

Insurance against all kinds of risks

As we have entered a period where liquidity is crucial, any purchases that do not directly support the company or organisation's operations should be postponed until the end of the year.

Considering the possibility that the policies implemented by economic management may not continue for a long time, regardless of how attractive it may be to earn interest income in national currency, foreign currency reserves must be created in accordance with the income-expenditure composition.



Not to forget: We emphasise the importance of having insurance against all kinds of risks - Emre Alkin

Foreign currency borrowing should be

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undertaken only by firms that generate foreign currency income. Short-term foreign currency debt and foreign currency liquidity should be closely monitored.

Of course, after listing these, we acknowledge the circumstances that could arise unexpectedly with a sense of surrender. For example: political or diplomatic disturbances, armed conflicts, external market shocks, extreme weather events, etc.

Not to forget: We emphasise the importance of having insurance against all kinds of risks. We remind operational and tactical units that if a strategic decision comes before them, it should be negotiated at a higher level.

This way, the risk of inexperienced individuals taking initiatives and harming the company can be avoided. A wise man says, "always trust, but check..."