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Analysis of today
Assessment of tomorrow

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The Prescriptions of the Economic Administrations and Zombie Firms

In the articles and writing I share with you, I do not directly perform market analysis. Because there are already many who do that, and unfortunately, most of them give comments like a broken clock that shows the correct time twice a day.

The number of individuals who possess extensive experience and provide consistent commentary is very small. To recognise their value, I don't even think of myself as part of the crowd.

I don't know if geography is destiny, but in countries like Turkey, trust in talented people is low, while trust in knowledgeable people is high. Therefore, those with academic titles that analyse markets tend to attract more attention.

This can create unfair competition against highly experienced analysts who do not have academic titles in their backgrounds.

Similarly, in developing countries, it's common for central banks or regulatory officials to carry academic titles.

In developed countries, even if they have titles, those working in such institutions are only known by their names. In developing countries, the appointment to these positions does not depend on experience, whereas in developed countries, such roles require relevant experience.

In countries like the US, presidential appointments are also subject to congressional approval. If the legislative branch is cautious about the choice of the president, they make it clear beforehand — so that neither the ruling power nor the candidate faces embarrassment before the public.

Interpreting numbers

In developed countries, such appointments are usually made directly, and simply being politically uncontroversial is considered sufficient qualification.

This linked "economic management" then interprets developments in parameters in their own way to prove their prescribed policies are correct.

When things go wrong, they say, "It will get worse before it gets better," and sometimes they turn rare positive developments into something "close to permanent improvement".

Of course, because stakeholders are left uncertain between the outcomes and the comments, they struggle when preparing financial statements and strategies.

In some countries, the reported inflation rates differed from citizens' perceptions by nearly 9 points

That's why I wrote this article—to shed light on how to interpret numbers and turn them into meaningful information.

For example, a joint study by Eurostat and the European Commission years ago revealed a significant gap between official figures and the actual situation in the market.

They found that in some countries, the reported inflation rates differed from citizens' perceptions by nearly 9 points. I recommend that instead of relying on the official figures and government commentary, companies identify their top 25-30 costs and, at least three years ago, perform indexing.

Especially since the pandemic distorted the figures, it's advisable to start analysing from mid-2021.

Trust what you see

By accepting this period as baseline "100" and calculating annual increases in costs, we can better estimate the next 2-3 years rather than listening to indifferent statements by economic management.

It’s more appropriate for boards of directors to obtain structured income-cost analyses and scenarios from professionals.

> If the economic authorities have not gained enough trust, the system has already been derailed

My second piece of advice: "Trust whatever you see and experience." If the economic authorities have not gained enough trust, if citizens are buying goods in advance without need, or if business owners do not feel secure about supply and pricing, then the system has already been derailed.

In such cases, companies face two choices: if competition is based on quality and price, then raising prices may not lead to profit.

That’s where the importance of the income-cost analysis I mentioned earlier becomes clear. If cost accounting indicates no profit margin on produced or supplied goods, persistence is pointless.

Conversely, if there is a chance to survive by expanding supply opportunities and customer portfolios, a cautious calculation and a trial can be made.

But this should have a definite time frame. If the firm cannot recover within that period, the effort should be abandoned.

Zombie firms

Of course, some might get upset reading this. Those who have been avoiding closing down long-standing businesses are probably among them.

But if a country’s economic policy considers bankrupting firms as a “side effect”, then persistence has no sense. Resistance will only lead to more zombie firms.

An IMF report ranked the top 10 countries with the most zombie firms between 1997 and 2020: Turkey, Indonesia, Romania, Russia, Norway, Latvia, Malaysia, Brazil, Italy, and Bulgaria.

So, the environment that creates zombification isn’t geographically limited. However, the heavy burden on the economy from forced or debt-financed firms is undeniable.

> Ignoring the side effects of the policies being implemented is a lack of knowledge

Returning to the main point: When highly educated yet inexperienced people are appointed to economic management, a top-down attitude towards the private sector increases.

These academically rooted appointees constantly blame the private sector for “lack of business knowledge,” often seeking revenge for the degradation of science in developing countries.

While there may be some truth to this, ignoring the damaging side effects of the policies being implemented by simply saying, “We modelled it; don’t worry; it’ll get better,” is also a lack of knowledge.

Cause-and-effect world

In a world where cause-and-effect relationships are intertwined, models must be regularly calibrated with precision.

For this, the results produced by the model should be continuously compared with real-world observations.

Since the economic administrations rarely act proactively, these models often collapse in the end, and cyclical developments are blamed as the culprits.

The critical decision-makers in developing countries usually lack the flexibility and skill

Actually, we are talking about a multi-equation, dynamic model—not a single-equation, static one.

The critical decision-makers in developing countries usually lack the flexibility and skill needed to establish such models. As a result, these models quickly drift away from reality.

Meanwhile, my advice is: the income-cost analyses I recommended for firms above should be similarly checked and calibrated with precision.

Economies have an entropy—the number of stable elements is less than the unserialised, random elements. Scientific rigour is proven not through memorised recipes but by adding care and rationality to past experiences. For this reason, firms' borrowing strategies for staying afloat need to vary periodically.

Altering economic management

Now, let's move on to a more complex calculation:

If the income-expense index described at the start of this article is correctly calculated, it's very likely that it will diverge significantly from the official CPI.

If a firm cannot increase its income at least as much as the CPI, continuing its operations with credit financing becomes impossible and, moreover, meaningless.

However, if income growth exceeds both expense increases and the official inflation rate, then the company can borrow regardless of how high market interest rates are.

The incompetence of economic management is merely a political matter, and firms need to understand themselves better through continuous analyses - Emre Alkin

If they also have substantial cash reserves, they can benefit from seasonal advantages in deposit interest rates. In many countries, when deposit interest rates are high, sector-specific low-interest loans are also applied—for agriculture, mining, or certain industrial sectors, for example.

There is no reason to use the company's money if the credit rates and deposit rates difference gives an opportunity.

In summary, the lack of practical field experience in sectoral activities by the economic administrations creates certain advantages for firms that carefully observe and adapt to their environment.

Therefore, the incompetence of economic management is merely a political matter, and firms need to understand themselves better through continuous analyses such as incentive schemes, credit campaigns, export opportunities, and so forth.

The only person with the authority to alter economic management is the leader.

Rather than becoming a zombie by continuing to borrow, it's best for firms to temporarily pause their activities. Alternatively, they can evaluate and leverage the differences between expectations and actual realisations, thereby maintaining profitability and continuing operations.

As an example: If a sector is expected to grow by 10% annually and a firm likes to grow more than that, this can only be possible by capturing customers from competitors—sometimes through aggressive moves, sometimes by patiently waiting for others to withdraw from the market.

In both cases, it's crucial to formulate and implement models based on reality rather than the statements of the ministers or governors, etc.