

# TREASURY MANAGEMENT STRATEGIES TO OVERCOME MACRO-ECONOMIC CHALLENGES.

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27<sup>th</sup> February 2020.



# Presentation agenda



1. Treasury Management :Introduction.
2. Roles that include aspects of treasury.
3. Macro- Economics Variables.
4. Macro- Economics Risks.
5. Strategies to overcome Macro-economic Challenges.



# Treasury Management: Introduction.





# Introduction.



- There has been major changes of corporate treasury management policies in the past few decades.
- In the 1960s treasury-related tasks entailed purely routine work in what was no more than an ancillary function as a centralizing cash management unit linked to administrative tasks.
- In the 1970s the first significant changes began to take place as the economic environment was hit by *recession*, which favoured the emergence of new short-term monetary policy instruments and the first hints of deregulation of financial markets, but treasury management was still restricted to the obtaining of funding, the management of payments and collections and the maintenance of bank balance positions.



# Introduction cont.....



- It was not until the 1980s that it became integrated into general corporate management and finally outgrew its purely administrative function linked to the accounting department.
- Treasury functions began to be based essentially on a financial cash management or liquidity management perspective.
- More recent advances (*development of new information and communication technologies, emergence and use of new financial instruments and an approach to business focused on increasing the value of organisations in all areas*) have favoured the development of new treasury management functions, and increased the importance of treasury departments within companies.



# Introduction cont.....



- The functions now linked to treasury management extend beyond the mere control of monetary flows and positions.
- Exchange-rate and interest-rate volatility in the wake of the *internationalization and deregulation of currency markets, the need to increase control of credit risk in increasingly competitive markets and the appearance of new financial instruments* have forced treasury management to become more forecast-based in its actions, with more emphasis on the management of investments, treasury deficits and different financial risks.
- This brings together various functions associated with short-term financial flow management: *liquidity management, banking management, management of treasury surpluses and deficits and financial risk management*; it is a broader concept than the mere management of payments and collections.



# Introduction cont.....



- In short, treasury management is based on
  - ✓ *payment and collection management.*
  - ✓ *liquidity management.*
  - ✓ *banking management which has now taken on a broader perspective that includes the planning of disposable treasury assets and their subsequent monitoring.*
  - ✓ *a strategy for investing surpluses to obtain maximum profitability.*
  - ✓ *financing deficits with minimum costs.*
  - ✓ *management of interest-rate risks.*
  - ✓ *management of exchange-rate risks.*



# Roles that include aspects of treasury.





# Roles that include aspects of treasury cont..



From entry level to board level, there are a huge variety of roles and job titles that include aspects of treasury. Some of these include:

- *Treasury analysts, treasury dealers and treasury accountants.*
- *Risk managers and cash managers.*
- *Credit risk and financial analysts.*
- *Group treasurers, head of treasury operations and tax directors.*



# Roles that include aspects of treasury cont....



- *Relationship managers and transaction services analysts*
- *Finance directors, financial controllers*
- *Managing directors, company secretaries*
- *Small business owners and entrepreneurs*
- *Non-executive directors*
- *Chief financial officers (CFOs) and Chief executive officers (CEOs)*



# Macro- Economics Variables.





# Macro- Economics Variables.

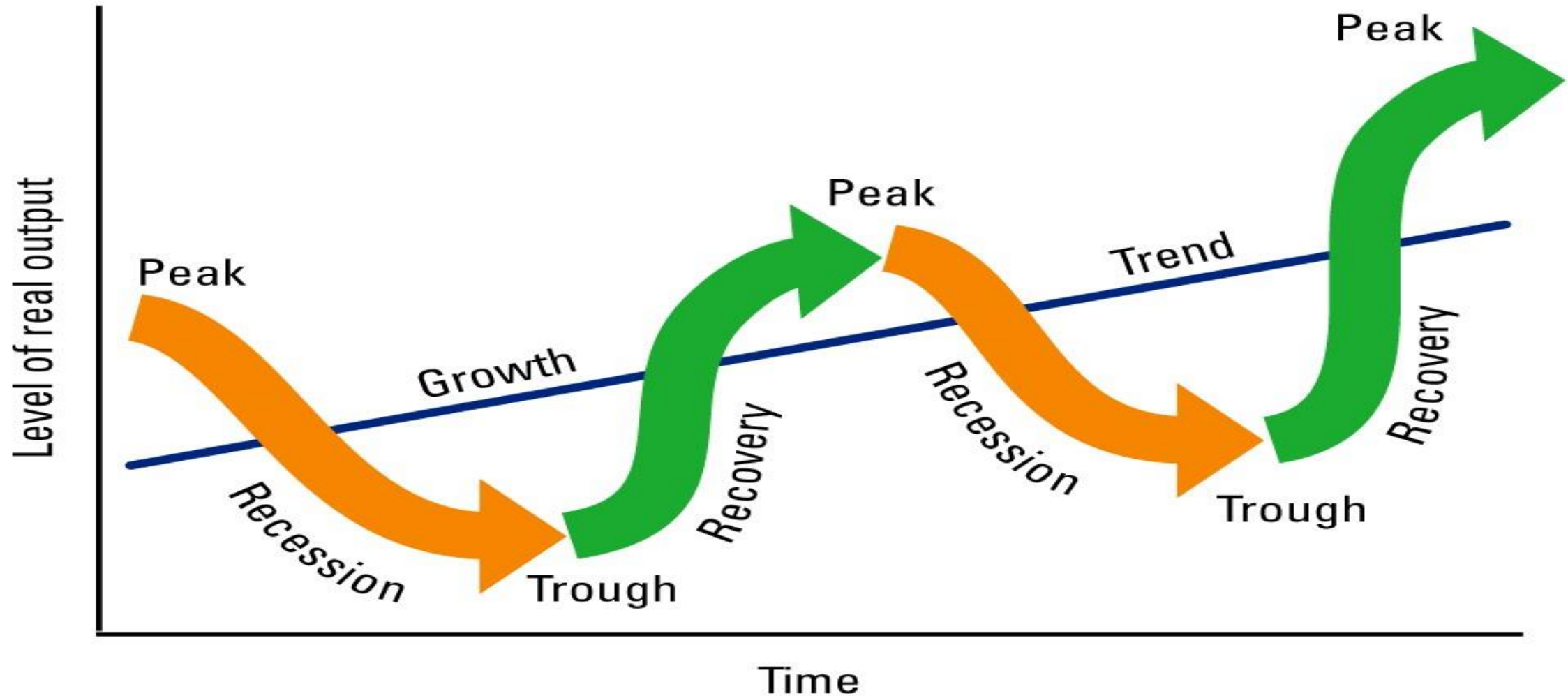


- Macroeconomics is the branch of economics that deals with the structure, performance, behavior, and decision-making of the whole, or aggregate, economy.
- Macroeconomics looks at the overall, big-picture scenario of the economy.
- It focuses on the way the economy performs as a whole and then analyzes how different sectors of the economy relate to one another to understand how the aggregate functions.
- This includes looking at variables like *unemployment, GDP, inflation, interest rate, exchange rate, Economic growth, public debt, B.O.P etc.*



# Macro- Economics Variables cont...

## The Economic Cycle





# Macro- Economic Risks.



- Macroeconomic risk derives from the behaviour of industries and governments and the relationships between them rather than from individual companies.
- It concerns *fiscal and monetary policies, trade and investment flows and political developments* on a national and international scale, and the effects of these factors on financial portfolios and company valuations.
- Intermediate variables of particular importance to macroeconomic risk include *equities and commodities markets, business cycles, unemployment, inflation, interest rates, prices, and exports/imports*.



# Strategies to overcome Macro-economic Challenges.





# Strategies to overcome Macro-economic Challenges cont...



Broadly speaking these strategies can be categorized as follows;

- ✓ *Integration Strategies.*
- ✓ *Intensive Strategies.*
- ✓ *Diversification Strategies.*
- ✓ *Defensive Strategies.*



# Strategies to overcome Macro-economic Challenges cont...



- ✓ Companies have the opportunity to purchase [political risk insurance](#) from a variety of organizations to mitigate potential losses.
- ✓ If an investor is [diversified](#) over enough markets, the macro risks of any particular one becomes more manageable from a portfolio perspective.
- ✓ There are several types of [annual international rankings](#) of countries that provide insight into their relative political and social stability and how that correlates with potential economic growth.
- ✓ [Making customers a priority](#) by running loyalty or customer incentive programs, adapting your products and services to be more suited to your customer's current needs and diversifying your business to minimise potential damage from the loss of a significant customer.



# Strategies to overcome Macro-economic Challenges cont...



- ✓ During an economic downturn it's especially important to explore free marketing tools available to you, including [social media](#) and word-of-mouth advertising.
- ✓ Make sure you have an up-to-date human resources (HR) plan. Use your plan to detail your staffing costs, which in turn will allow you to [accurately cost your products or services](#).
- ✓ Build [morale and motivation](#) by clearly communicating with your staff what is happening within the business. Try to involve them in decision-making and finding solutions.
- ✓ You may also consider [training your employees](#) to undertake more duties. If you do need to let some staff go to save money, make sure you understand your [obligations for ending employment](#).



# Strategies to overcome Macro-economic Challenges cont...



- ✓ Networking during an economic downturn can be useful to understand how other businesses are coping. You may also discover new opportunities, customers, staff, suppliers and business partners with minimal cost to your business.
- ✓ Consider forming alliances with other business, for example, by offering complementary services and discounts
- ✓ Developing innovative practices may help you adapt to changing market conditions and stay ahead of your competitors. As part of this process you should review if using technology will increase efficiency, reduce costs and make your business more competitive.
- ✓ Speak to a financial adviser or other types of business advisers, such as accountants and consultants, to help you survive an economic downturn.



# Strategies to overcome Macro-economic Challenges cont..



- ✓ Like all other risks, economic risk can be mitigated by investment options like international mutual funds which facilitate diversification by allowing investment in a variety of products at a time.
- ✓ Hedging activities against exchange rate fluctuation will prove worthwhile to mitigate the risk.
- ✓ The study of country risks is also necessary in order to develop alternative scenarios: Uncertainty may remain, but it can be transformed into planned uncertainty, with no surprises and with contingency plans in place.
- ✓ The Index of Economic Freedom that ranks countries according to the impact that political intervention has on business decisions and the Corruption Perception Index that indicates the extent of corruption should be factored in when making investment decisions.



# Strategies to overcome Macro-economic Challenges cont...



- ✓ Consider the timing of your investments. Investors should restrict capital transfers to a country to those times when the foreign exchange rate is in equilibrium.
- ✓ Borrow domestically to do business domestically and avoid foreign exchange rate exposure.
- ✓ Focus on the devaluation risk when choosing among countries as investment sites.
- ✓ Consider the amount of capital required by those activities that are being developed in a country subject to devaluation risk.
- ✓ Managers must analyze the domestic situation for industry risks such as the strength of competitors, the potential for substitutes, the capabilities of suppliers and customers, and the risk of new entrants.



# Strategies to overcome Macro-economic Challenges cont...



- ✓ Companies with higher levels of business risk should choose a capital structure that has a lower debt ratio to help ensure it can meet its financial obligations at all times.



*The End*