

WHAT TO WATCH FOR IN 2021



EVEN WITH STRONG FISCAL SUPPORT AND FINANCE PARTNERS, TREASURERS WILL NEED TO WEIGH A RANGE OF RISKS. **BRIAN SHANAHAN** LOOKS AT THE POSSIBILITIES

▶ Back in March and April of 2020, most corporates were trying to understand the worst possible scenarios that might result from the pandemic. While travel, hospitality and bricks and mortar retail have been hammered, many businesses have carried on with a moderate level of impairment.

We now have a much better understanding of the day-to-day impact of the pandemic and most businesses are prepared for a long period before we can finally say we have got beyond COVID-19.

That doesn't mean 2021 is going to be risk-free. There is still quite a lot of uncertainty that could impact treasury operations around the world. Treasury people know it takes a great deal of skill to manage and predict cash flows, particularly in the face of unplanned events.

Some good news is that cash-flow forecasting and planning tools continue to improve and are more tuned to the needs of already resource-starved treasury departments.

SUPPLY AND OTHER RISKS

A standout lesson from early 2020 was that supply chains are fragile and that very few of us understand the full end-to-end supply chain that can affect our companies.

One of the biggest issues right now is Brexit. Many smaller companies and hauliers

are still struggling with the new regulations, whether importing into or exporting from the UK. Smaller companies may not have prepared their payments processes in advance of Brexit, causing some small hiccups. More significant is that some companies are suffering unexpected revenue holes because they, or their suppliers, were not ready for the change. This makes it essential for those affected companies to watch short-term cash-flow forecasts carefully.

Turning to liquidity, the big banks continue to state they have no problems in this respect, but that doesn't mean everyone is buying the message. One big positive for banks coming out of the pandemic is that savings rates are very high, and this is strengthening the balance sheets of retail banks. But many banks worry that government-guaranteed loans will go bad and that governments may not honour their commitments. If it did happen, banks would be forced to tighten liquidity very quickly in a similar way to events in late 2008. If you are an investment-grade corporate, banks are lending very freely, as they try to balance up their risk profiles. That also means that non-investment-grade corporates are already finding it tougher or more expensive to borrow. (For more on banks and financing, see page 9.)

Market volatility is also focusing many minds, and there are a number of aspects to the risks involved. There is a continuing level of uncertainty around sterling, namely that it will be impacted by Brexit.

Many will be worried about the effect of reduced corporate profits. This should drive share prices down. This could also impact liquidity if central banks were to step in to stabilise falling share markets or to shore up their currencies. If that happened, credit agencies would likely mark down many ratings, making borrowing tougher and more expensive. There are also moves to restrict corporate abilities to repatriate cash from places like China. If more countries were to react with such protective policies, it will effectively lock up large amounts of cash.

We should be careful not to cry wolf too often, but it is imperative that we are aware of the risks ahead. There may even be some risk that, as yet, we are completely unaware. To paraphrase Benjamin Disraeli, it is best to plan for the worst and hope for the best. ♥



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