



# Geopolitical risks: understanding and managing their impact for treasuries

Geopolitical risks have become a critical focus for treasury professionals, as global instability continues to impact financial operations. At *EuroFinance's International Treasury Management 2024* in Copenhagen, experts and industry leaders discussed how to navigate this complex landscape. From political unrest and shifting trade policies to capital controls and currency volatility in key markets, treasurers are tasked with managing liquidity and ensuring compliance across borders.

The discussion underscored the importance of adaptability, proactive risk management, and local expertise, as well as the need for centralised treasury models to enhance control and resilience in a volatile geopolitical environment. With the support of Deutsche Bank the event fostered a vibrant exchange of ideas, illuminating the path forward in these ever-evolving times.

The breakfast meeting had a distinguished panel of speakers representing various prominent organisations. Daniel Franklin, Executive editor at The Economist, Tom Rafferty, head of forecasting and economics at the Economist Intelligence Unit. The panel also included Britta Döttger, head of treasury and finance, of Roche, and Tor Stian Kjøllesdal, SVP head of treasury and tax at Equinor who shared their expertise in treasury management and global financial challenges. They are both members of the Economist Global Treasury Leaders Series Advisory Board.

## Navigating economic volatility with resilience

The treasurers at the breakfast emphasised the importance of resilience amidst today's global volatility. With political unrest, economic challenges, and rapidly changing market conditions, treasurers are expected to handle substantial unpredictability. Despite the rise in interstate conflicts and trade tensions, global growth has shown surprising stability, largely driven by strong economies like the United States. This stability demonstrates the adaptability of global markets in absorbing shocks and suggests that treasurers can find ways to safeguard liquidity even in volatile conditions. Treasury professionals now focus on managing cash flows and liquidity with a forward-looking approach, balancing potential opportunities with existing risks.

"We haven't seen a major economy enter recession. Despite this volatility, global growth has been stable, if not superb. And all of that's underpinned by the strength of the US economy," Rafferty added.

“So despite the volatility we’re seeing, despite the negative impact of geopolitics in many ways in terms of things like supply chain management, treasury management, tariffs, trade tensions, there’s a long list of it, but there’s actually a surprisingly upside, I would say, in terms of higher geopolitical risk going forward.”

Despite the volatility and challenges posed by geopolitical risks governments have become more involved in economies, they are offering increased incentives and subsidies to companies. “Governments are getting more involved in economies. There’s more incentives, subsidies available for companies. We’re seeing rising investment in key strategic sectors which are driven by geopolitical risk. Think about critical minerals, AI, clean tech, a lot of these sectors have a lot more focus than they used to because of the geopolitical and national security imperatives,” Rafferty noted.



### **Geopolitical risks and strategic adaptability**

The forum’s discussion highlighted geopolitical awareness as essential for effective treasury management. Treasury leaders face potential policy shifts, notably in the United States, where Trump’s election may impact trade policies. For instance, protectionist policies could lead to increased tariffs and further alter trade dynamics, which would

require treasuries to adjust their strategies for supply chain resilience and capital repatriation.

Treasurers are advised to closely monitor political developments, such as election cycles, and to prepare for a range of outcomes that could impact liquidity and capital planning. The treasury’s proactive response to these shifts is crucial for companies managing assets across borders. By maintaining strong relationships with local banks and regulatory bodies, treasury departments can stay informed and better prepare for regulatory changes that may restrict cash movement in key regions.

### **Challenges in different markets: Argentina and China**

The breakfast’s discussions underscored the unique challenges in managing treasury functions in different markets, where capital controls and currency volatility can hinder cash flows. Argentina and China were highlighted as key examples of markets requiring nuanced strategies for treasury management. In Argentina, optimism around potential policy changes suggests the possibility of eased capital controls, though treasurers remain cautious given the country’s history of economic and political instability.

“The global trend, as we’ve been hinting at, reflects an inward shift in economic policy—a return to borders,” Rafferty observed. “The liberal movements over recent decades toward more open capital accounts and open borders are definitely reversing. There are some exceptions to this trend. Argentina, for example, is an interesting case. We have a surprisingly positive view on Argentina’s economic outlook and direction. We see it as the most promising growth story for Latin America next year.”

China presents a distinct set of challenges due to its strict regulatory environment and unpredictable policy shifts. Treasury teams in China have increasingly employed cross-border cash pooling strategies, which allow for more efficient liquidity management within regulatory limits. This approach requires proactive engagement with local banks and authorities, and in China’s case, having team members fluent in Chinese has proven valuable in fostering effective communications and understanding local regulations. Such localised strategies allow treasury functions to better anticipate and respond to regulatory changes, ensuring that funds are managed effectively.

Rafferty also talked about the Middle East and noted, “we’re concerned about the situation in the Middle East right now and the uncertainty surrounding its future trajectory”. “It’s quite challenging to predict the direction from here, but we do seem to be in an escalatory environment. This

conflict and its related issues are likely to persist well into next year," he added.

Rafferty went on to highlight the broader implications of these tensions: "If we're assessing geopolitical risks and their potential impacts on economics and capital management, the Middle East is probably going to be the key region to watch."

In regions with restrictive regulatory environments, local knowledge is invaluable for treasury teams. Experts stressed the importance of fostering close relationships with local banks, regulatory authorities, and other stakeholders to navigate capital restrictions and regulatory complexities effectively. As treasurers prepare for potential economic changes, understanding the local regulatory environment and cultural context ensures that treasury operations can remain compliant and effective, regardless of policy changes.

### **Centralised treasury models for improved control**

The centralised treasury model was widely discussed as an efficient approach to managing global capital. Industry experts highlighted the model's ability to streamline cash management, facilitate rapid responses to economic shifts, and improve capital allocation. Centralised treasury operations also enhance communication and coordination with local offices, ensuring that regional teams align with corporate objectives.

For companies in sectors sensitive to market volatility, such as energy, a centralised treasury structure is critical. By unifying processes like cash management and foreign exchange hedging, centralised treasury teams have a clear overview of liquidity across multiple jurisdictions. This setup supports an efficient and coordinated response to market shifts and regulatory changes, particularly in regions with complex compliance requirements.

### **Risk management: proactive policies and strategic compliance**

Effective treasury management relies heavily on proactive risk management strategies. Treasurers stressed the need for scenario planning and the importance of maintaining compliant operations across all markets. In regions with restrictive cash repatriation policies, treasury professionals need to develop alternative strategies for managing cash flows. This includes creating policies for currency management and ensuring that the company's compliance aligns with local regulations.

The treasury's risk-averse approach is built on the principle of maintaining liquidity and avoiding losses. This requires a deep understanding of local regulations and the economic environment, especially

in emerging markets. Treasury professionals discussed the importance of maintaining open lines of communication with local affiliates and central banks to ensure that funds can be repatriated when necessary, despite capital restrictions.

### **Patience and persistence in complex markets**

For treasurers operating in highly regulated or challenging markets, patience and persistence are key. In places like Nigeria, where treasury operations can be restricted by regulatory policies, building strong local relationships over time is essential for success. Treasury professionals emphasised that handling cash restrictions and regulatory hurdles often requires a long-term approach. By working closely with local stakeholders and adhering to compliance requirements, companies can improve their ability to move funds and manage risks.

Through persistent efforts, treasury teams can develop effective strategies for repatriating funds from certain restricted markets. Patience, combined with a robust compliance framework, allows treasury teams to mitigate risks and operate effectively in complex regulatory environments.

### **Conclusion: treasury as a strategic partner in an evolving economy**

The EuroFinance International Treasury Management 2024 Breakfast Meeting at Copenhagen provided valuable insights into the evolving role of treasury management as a strategic partner within organisations. With the economic landscape characterised by volatility and change, treasury functions must adopt a proactive and adaptable approach. Through centralised models, strong regulatory knowledge, and local expertise, treasury departments are positioned to navigate the complexities of global markets.

Treasury professionals are increasingly recognized for their role in shaping corporate strategy, optimising liquidity, and ensuring compliance across jurisdictions. In today's interconnected world, the treasury function is not only responsible for managing cash flows but also plays a critical role in positioning companies for sustained growth and resilience. By balancing the need for agility with risk management and regulatory compliance, treasury functions can thrive in a global economy that is both challenging and full of opportunity. ■