Liquidity first: priorities for the first 100 days

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Note: the professional episodes described below have been deliberately anonymized. The objective is to discuss liquidity management principles, not to report on specific companies.

Crises rarely give enough warning

Business crises rarely give enough warning. A company may have relevant assets, strong brands, profitable operations and solid long-term prospects - and still face a liquidity crisis in a matter of days. During periods of stress, what looked like a permanent credit line may disappear; a bank may stop renewing a facility that had been rolled over regularly; a supplier may shorten terms; collateral may lose value; or an economically sound hedge may require immediate cash through margin calls.

For this reason, when a company enters a period of greater financial complexity, the CFO's first question should not only be “what is the company worth?” or “what is the result?”. The more urgent question is usually: how much time do we have? Liquidity is what buys that time.

Throughout my career, I have experienced different episodes that reinforced this conviction. They took place in very different contexts - industry, commodities, international operations and turnaround situations - but they had one thing in common: when liquidity starts to disappear, speed, transparency and execution capability become as important as the balance sheet itself.

When the market shuts: Brazil, 1999

At the beginning of 1999, I was the Treasurer of a multinational industrial joint venture with a strong dependence on imported raw materials and external financing. The company's financial structure relied significantly on foreign-currency funding. Aluminum coils, the main production input, were predominantly imported and financed through import financing transactions with maturities close to one year. In parallel, there was a shorter-term working-capital facility contracted offshore and periodically renewed.

The Brazilian currency crisis changed that environment abruptly. After intense pressure on reserves and capital outflows, the Central Bank allowed the real to float in January 1999; the currency depreciated sharply and access to external financing became much more difficult. The IMF itself recorded large capital outflows at the beginning of that year and the subsequent need to rebuild external credit lines.[1] [2]

For us, the effect was immediate: dollar-denominated lines used to finance imports virtually disappeared. At the same time, a short-term working-capital facility that had been renewed regularly was no longer rolled over. Suddenly, a funding model considered operationally normal ceased to exist.

> **A line that is unused or regularly renewed is not cash until the money is actually available.**

Immediate action was required. We contracted an extremely expensive emergency facility for a very short period in order to preserve cash and meet critical maturities. Some payments to international suppliers had to be postponed. But there was one principle we would not compromise: transparency.

Suppliers were informed about the situation, the reasons for the temporary difficulty and the plan to normalize payments. There was no attempt to hide the problem or to buy time through unrealistic promises. As the Brazilian market stabilized and credit lines began to return, payments were fully normalized. At the end of the process, one supplier even sent a letter to the CEO specifically recognizing the transparency with which the situation had been managed.

> **The lesson stayed with me: liquidity depends on credit, and credit depends on trust. Trust is particularly valuable when cash is tight.**

When the hedge works - and cash is still missing

In 2008, while working in the Treasury of a large global commodities company, I experienced a completely different situation. Commodity prices had risen sharply and volatility increased, putting pressure on margin requirements for hedge positions in futures markets. The period was marked by significant stress in financial markets and a broad deterioration in liquidity conditions.[3]

This is an aspect that is often misunderstood outside commodity markets. A company may be economically hedged and still suffer enormous cash pressure. If a company owns, or will physically receive, a commodity at a pre-agreed price and sells futures contracts to protect that price, an increase in the underlying commodity price may increase the economic value of the physical asset, while the short futures position can generate margin calls that must be settled in cash, often daily.

There is not necessarily an equivalent economic loss. There is, however, an immediate need for funding liquidity. Later BIS studies on commodity markets show how large margin and collateral calls can rapidly drain liquid assets and place pressure on companies dependent on short-term funding.[4]

In that episode, even a company of substantial scale, high credit quality and broad access to the financial system had to increase its liquidity capacity quickly. In Brazil, we were asked to confirm and potentially increase the credit lines available to the group. In a short period of time, the local Treasury mobilized significant additional credit capacity, helping reinforce global liquidity at a moment of intense market stress.

The most important point is not the amount. It is the difference between solvency and liquidity. A company may have equity, assets, earnings and economically sound positions and still be put at risk if it cannot convert those elements into cash when needed.

Credit also changes when ownership changes

Years later, as CFO of a global company, I experienced another expression of the same principle. The business had been structured as a joint venture between two large shareholders. When one shareholder sold its stake and the other became the 100% owner, the commercial operation remained essentially the same - but banks' perception of credit changed.

Financial institutions reviewed limits, spreads and terms. The change in ownership structure altered the way risk was perceived, even without an equivalent change in the underlying business.

That episode reinforced another important lesson: credit is not only a function of a company's numbers. It is also a function of the lender's perception of governance, shareholders, collateral, sector, capital structure and management's ability to react. When any of these elements changes, available liquidity may change as well.

In those situations, transparency and early action are again essential. Banks need to understand what changed, what did not change, what the company's sources of cash are, what collateral exists and what the financial plan is for the new reality.

In an acute crisis, the first 30 days matter even more

These experiences took place in structured companies with relevant operations. In an acute crisis, however, the challenge is even more intense. When a company enters the problem with limited liquidity, management does not have the luxury of spending months building a perfect diagnosis. Diagnosis must happen while the company is already executing.

In the first few days, several questions need to be answered quickly: how much cash is actually available? What are the maturities over the next few weeks? Which payments are essential to keep operations running? Which inventories can be converted into cash? Which receivables can be accelerated? Are there unused assets or collateral? Which banks still have appetite? Can new financing structures be created? Which suppliers are critical? What is the true cash runway under different scenarios?

In one situation in which I participated, several of these measures had to be implemented simultaneously. Inventory reduction to release working capital, identification of potential assets and collateral, and creation of new financing structures all had to happen in parallel.

> **The greater the crisis, the shorter the distance between strategy and execution. It is not enough to prepare a presentation showing what should be done. It has to be done.**

A framework for the first 100 days

Although every situation is different, I find it useful to divide the first 100 days of liquidity management into three stages.

Days 1-30: survive and gain visibility

The initial priority is to build a sufficiently accurate view of cash to support decisions. This means establishing short-term forecasts, usually weekly and, in critical situations, even daily. Perfect accuracy matters less than a view that is reliable enough to anticipate shortfalls.

At the same time, cash must be preserved. Working capital needs to be addressed immediately: inventory, receivables, supplier terms and non-essential expenses. This is also the moment to map every potential source of liquidity - bank lines, collateral, available assets, receivables, financeable inventory and alternative structures.

Days 30-60: rebuild financial capacity

Once the immediate problem has been contained, rebuilding begins. Sources of financing need to be diversified. No company should be excessively dependent on a single bank, instrument or source of funding.

This is also the stage in which relationships with creditors become central. Nobody likes surprises. It is far easier to negotiate a solution with a creditor who understands the problem and follows its evolution than with someone who first discovers the crisis on the maturity date.

The same logic applies to strategic suppliers. Transparency does not mean indiscriminately exposing sensitive information; it means creating a truthful and consistent narrative supported by concrete actions.

Days 60-100: turn liquidity into discipline

Once the emergency is under control, the objective is no longer merely to survive. The company needs to build a structure that reduces the probability of the problem recurring.

This involves liquidity policies, minimum cash thresholds, funding diversification, maturity planning, stress testing, collateral mapping and clear governance mechanisms. Liquidity management stops being a reaction to a crisis and becomes a permanent part of the company's risk management framework.

That discipline should include scenarios in which lines are not renewed, spreads rise, currencies move violently, margins are called and assets that appeared liquid can no longer be financed immediately. The question is not only whether a given event is likely. It is whether the company would survive if it happened.

Liquidity is a strategic option

After more than three decades working in Treasury, Finance and Risk Management, perhaps the most important conclusion is also one of the simplest: liquidity should not be managed only when it is scarce.

Strong companies also face crises. Markets close. Banks change their minds. Shareholders change. Commodity prices surge. Collateral stops being accepted. Events that appeared unlikely can become reality much faster than financial models normally assume.

When that happens, available cash, credit lines, financeable assets and trusted relationships with banks and suppliers are not just financial resources. They represent options. And options buy time.

> **Liquidity first does not mean that earnings, strategy or value creation are less important. It means recognizing that, without liquidity, there may not be enough time to achieve any of them.**

References

[1] International Monetary Fund (IMF), Brazil: Memorandum of Economic Policies, March 8, 1999. Records the move to a floating exchange rate on January 15, 1999 and the subsequent sharp depreciation of the real.

[2] International Monetary Fund (IMF), Brazil: Memorandum of Economic Policies, November 12, 1999. Discusses the large capital outflows at the beginning of 1999 and the subsequent rebuilding of external credit lines.

[3] Board of Governors of the Federal Reserve System, Monetary Policy Report to Congress, July 15, 2008. Describes the sharp rise in commodity prices and the deterioration in liquidity and financial-market conditions during the first half of 2008.

[4] Bank for International Settlements (BIS), The financial implications of volatile commodity markets, 2022. Analyzes how margin and collateral calls in commodity derivatives can rapidly consume the liquidity of commercial participants.