Working Party on Financial Statistics

Financial constraints to enterprise investments an international analysis on financial accounts of OECD Countries

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Financial constraints to enterprise investments an international analysis on financial accounts of OECD countries

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Distortions in financial markets are essentially due to an inefficient distribution of information among the various economic agents.

After Modigliani-Miller theorems and the resulting corporate financial analysis, those distortions represent the main restrictions to the irrelevance of the financial structure of enterprises and entail a higher compensation of external funds with respect to self-financing.

In the presence of imperfect financial markets or of agency costs between managers and financers, there is a difference in price between financing from external and internal sources, which are not perfect substitutes.

As a consequence, according to Fazzari, Hubbard and Petersen (FHP), enterprises who indicate restrictions in financing conditions present a direct proportion between internally generated cash flows and investment decisions.
Criticism: according to Kaplan and Zingales the econometric verification of a positive relation between cash flow and investments doesn’t demonstrate that enterprises are subject to financial restrictions in their decisions on expenses to undertake.

Additional cost for the use of external funding implies that investments are directly proportional to internal finances and, therefore, also enterprises with less constraints, present a monotonous increasing proportion between investments and cash flow.

Moyen (2004) carried out a comparative analysis of FHP’s and KZ’s approach considering the dividend pay out as a way to identify the corporations financial status.
Pecking Order Theory

Hierarchy of financing sources

- first position held by **equity**
- **securities** follow
- **loans** pay the large funding cost even if banking relationship is a second best solution for financing in the presence of asymmetric information
- Highest equity for Mexico, UK and USA
- Loans predominant in Japan
- Lowest security in the Euro South and loans are the second highest
- Large weight of other account payables in Japan and Europe
Time series comparison (1996-2010) within the Euro area: from 2008 to 2010 in the Southern area shares decrease to the advantage of the banking sector.

Financial Framework - Liabilities of Non-Financial Corporations
North Euro vs South Euro Area
- Liquidity directed to reimburse liabilities rather than to investments in UK
- Carry trade in Japan
- Greatest net borrowing on GDP and highest investment growth rate in Southern Europe
Financial market deepening (FMDi) as a structure synoptic outline:

\[ FMD_i = EQUITY_i + BONDS_i - LOANS_i - OTHER_i \]

- Highest FMDi for USA and Mexico
- Negative size for FMDi for Japan
- Low FMD and High investment for Southern Europe
- Possible role played by other account payables
Gross Financial market deepening (FMDi)

\[ \text{FMD}_i = \text{EQUITY}_i + \text{BONDS}_i - \text{LOANS}_i \]

Financial Constraints to Investments of Non-Financial Corporations in some OECD countries

(3 - Gross Financial Market Deepening)
Euro South enterprises show proof of a higher investment growth rate than the Northern ones even though they possess fewer resources on the financial markets and a larger deficit on GDP.

Can that possibly point to two different behavioural patterns in Europe?
Time series comparison (1996-2010) within the Euro area: from 2008 to 2010 the Northern area has benefitted from the business restructuring previously undertaken and shows relative higher growth of cash flow compared to the South (more than 26%)
We are very grateful to you for having given us the pleasure of having considered these views with us

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