



Emerging Markets Queries in Finance and Business

# Enterprise Financing in the context of macroeconomic instability. Evidence from CEE Countries

Rusu Valentina Diana<sup>a</sup>, Toderaşcu (Sandu) Carmen<sup>a,\*</sup>

<sup>a</sup>*Alexandru Ioan Cuza University, Carol I Boulevard, no. 11, Iaşi 700506, Romania*

## Abstract

Through this paper we aim to identify the main obstacles faced by the enterprises when taking the financing decisions in the context of the present macroeconomic instability at the European Union level. The easy access to finance is important for enterprises, because it conditions their creation, survival and development and, eventually, the economic growth and the creation of workplaces. For this purpose we analyze enterprises from seven emerging countries in Central and Eastern Europe (Bulgaria, Estonia, Latvia, Lithuania, Poland, Romania and Hungary). Using multiple linear regression models we want to observe the changes that appear in the use of various sources of financing as a result of modification of the main macroeconomic factors from each analyzed country. The results show that the changes in the chosen macroeconomic variables have a significant influence on the financing decision of the analyzed companies causing significant changes.

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## 1. Introduction

The main objective of this analysis is to identify the impact of the current financial crisis on the enterprise financing, through its influence on the macroeconomic indicators in each country. And at the same time, we try to identify if in the context of current financial crisis, the enterprises have changed their financial structure or just have reduced external financing.

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\* Correspondent author . Tel.: +40-742-973-287;  
E-mail address: [valentinadiana.ig@gmail.com](mailto:valentinadiana.ig@gmail.com).

The motivation of this research arose due to the fact that there are empirical studies that address the issue of financial structure of firms and the factors determining the firms to choose a particular financial structure, but there are not empirical studies showing what changes appear in the foundation of financing decision of the enterprises in the context of financial crisis event. We consider this as a serious problem, especially in the current period, when financial crises are becoming increasingly common in all countries.

The development or inhibition of firms' activity may be due to internal factors and objective macroeconomic factors, on which entrepreneurs can act. In the last decades increasingly more studies (Rajan and Zingales, 1995; Demirgüç-Kunt and Maksimovic, 1999; Graham and Harvey, 2001) have examined the financial structure of firms and its determinants. Most of these studies show that the dominant source of corporate financing is the internal resources, for example the reinvested profit. Regarding other sources of financing (eg, issuance of shares, bonds or bank loans), there are important differences between countries according to their economic and financial characteristics. Regarding the macroeconomic factors that determine the differences between countries regarding the financing of the firms the studies conducted until now have not a unitary approach.

Talking about the impact of macroeconomic instability on firms the internationally studies realized by the World Bank (Correa and Iooty, 2009; Correa, et. al., 2010 (a); Correa, et. al., 2010 (b)) showed that the enterprises in Central and Eastern European countries were significantly affected by the current financial crisis, registering reductions in net revenue from the activity.

To identify the impact of the changes in the macroeconomic environment on the enterprises we have chosen to use an econometric analysis based on panel data.

## **2. Sample selection**

To choose the sample we used as a criterion the turnover of the firms. Therefore, our sample consists of the top 35 private non-financial enterprises (by turnover recorded in 2009) from seven developing countries in Central and Eastern Europe that are members of the European Union (Bulgaria, Estonia, Latvia, Lithuania, Poland, Romania and Hungary). Based on this selection has resulted a sample of 245 large enterprises. The period for which we collected the data is 2004-2009, we chose this period of time to be able to make a comparison between the situation before the outbreak of the current financial crisis and the crisis situation.

The main source of provenance of the microeconomic data that we have analyzed is AMADEUS database managed by Bureau van Dijk, which provides comparable financial information for about 14 million public and private companies throughout Europe.

## **3. Empirical analysis**

### *3.1. The sample selection and the definition of the variables*

The financial crisis is a very complex phenomenon, and its impact on the way of substantiating the decision to finance the enterprise by using bank loans is difficult to explain only by means of graphical analysis or through dependence of two variables. Therefore, to determine the influence of the current financial crisis on bank financing of enterprises in selected countries of Central and Eastern Europe, we have used multiple linear regression model and, the econometric technique used to estimate these regressions is a dynamic technique, the panel data, because we analyze of the enterprise financing behavior from the sample ( $N = 245$ ) from seven countries over a period of six years ( $T = 6$ ). The program used for these econometric tests is E-views 7.

When choosing the explanatory variables used in the econometric analysis that we performed, we did not have as a model a study realized in this area but we have considered a number of macroeconomic indicators whose development we considered that have a certain influence, on the financing decision of the enterprises,

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