



THE IMPACT OF FINANCIAL SUSTAINABILITY FOR COMPANIES IN RESTRUCTURING PROCEDURES ON THE ECONOMIC GROWTH

Cristina Săveanu

Ph. D. Student, Doctoral School of Economics and Business Administration
"Al. I. Cuza" University of Iasi, Romania

ABSTRACT

Financial sustainability of firms in restructuring procedures actually means supporting their economic recovery. This economic recovery is achieved through specific financial and banking market actions which means developing various lending products adapted to this context. The lending activity for restructuring situations really means establishing links between financial markets and the real economy. Even if the banking system is considered stable enough, the Romanian economy is marked by instability. There is a financial dependence bank credit thus, the credit channel becomes a transmission mechanism of financial instability from outside. This paper tries to examine the impact of lending to companies in restructuring procedures on the economic growth and the importance of adapting the credit products to the enterprise need.

KEYWORDS : financial sustainability, restructuring procedures, economic growth

INTRODUCTION

Lending activity must be discussed and analyzed in the context of the financial crisis. In times of financial crisis, due to financial difficulties, the economy seems to be much more dependent on credit than in other periods. Crisis involves changes in the perception of the role of money in the economy.

According to Dan Olteanu[1], the inexistence of credit conditions determines the impossibility to meet the eligibility criteria for credit, further creating a practical absence of financial sustainability. This way appears a pyramidal system of indebtedness and the lack of new loans generate the impossibility to pay the old loans, creating a vicious circle.

In the current economic climate a real challenge in fighting financial imbalances is the successful incorporation of credit and indebtedness in the economic models.

Credit risk spreads even due to the effect of welfare. This wealth effect ("wealth effect" - en.) actually means an increased demand for credit and consumption growth in terms of value of assets, this increase in revenue creating the impression that one can afford more debt and spending. In this context there are generated instable situations both in the real sector and the financial one.

The establishment of links between financial markets and the real economy can be analysed in the context of the financialization[2] concept. In order to determine the intensity of these links we can use a financial accelerator model. This model allows us to assess the role of corporate sector in the evolution of the financial crisis [3].

The financial accelerator concept in macroeconomics brings forward the idea that shocks in the economy may be amplified by worsening conditions in the financial markets. Unfavorable conditions in real economy and financial markets due to financial crisis can spread to a macroeconomic level.

The relationship between the real economy and financial markets is the result of the need to finance companies. The ability of a company to borrow depends mainly on the market value of their assets. In this circuit the problem that occurs is the informational asymmetry of the market, as lenders hold little information about the viability of business borrowers. Business valuation is basically based on the assets held in this regard, a deterioration of assets in terms of value attracting a reduction in the ability to borrow and effects on the economy as a whole. This vicious cycle is called financial accelerator. The essence is that a small change in financial markets can produce a large change in economic conditions.

THE FINANCIAL ACCELERATOR MODEL

Elements of the economic theory of the financial accelerator have been widely used in many studies, but the concept itself of "financial accelerator" was introduced through the study developed by Bernan-

ke, Gertler and Gilchrist in 1996. They argued that high fluctuations in economic activity are based on seemingly small shocks.

The accelerator principle is an old principle, mentioned by Aftalion (1913), and Samuelson (1939), who argued that changes in demand affects the results, meaning that an increase in national gross product causes an increase in consumption and investments with an acceleration effect upon the entire economy.

The analysis of the financial accelerator mechanism should be performed in the context of a Ponzi-type economy. In this case, given the particular casuistry concerning the restructuring situations for most firms in this category, debt service payments made by new loans and the economy became highly vulnerable to financial crisis [4].

The financial accelerator mechanism referred by Ben Bernanke [5] essentially reflect the procyclicality of risk-taking, meaning that when there are good economic times, investors tend to assume high risks which cause effects on the entire financial market.

If we consider the present economic context, dominated by the doctrine of mainstream economics [6], credit acts as a financial accelerator, meaning a set of factors that amplify and propagate conventional interest rate effect and the influence of monetary policy in different ways: bank lending channel, balance sheet channel bank and non-banking balance sheet channel. Bank lending channel requires adjustment of bank credit supply by central bank interventions as modifying bank reserves. Bank balance sheet channel profitability by influencing assumed interest rate, the influences on the supply of credit. The third channel is the non-banking balance sheet through which monetary policy, the interest rate has an effect on asset prices which can provide guarantees of new loans, a high value meaning an increase in their lending capacity.

Returning to the concept of financial accelerator, it is closely related to credit, especially to the productive credit. There are linked, in this context, two different notions, the productive credit - an economic notion of classical conception and the financial accelerator of modern conception. Consequently, in order to fulfill the role of economic growth stimulation, the loan must be productive, borrowers must have a supportive role in developing income generating activities, based on which to honor their obligation to creditors.

Our approach in this research is to reflect influences that lending to firms in reorganization proceedings may have on the economy as a whole, in the sense of obtaining an increase in gross domestic product.

CASE STUDY AND RESULTS

Our process of analysis starts from the accelerator theory proposed by Bernanke et al (1999), referred to in the previous paragraphs. According to this theory, an increase in the flow of credit (Credit accelerator) causes an increase in consumption and investment, and subsequently an increase in the value added in the economy measured by GDP.

The connections between GDP and credit accelerator can be illustrated by the following relationship [7]:

$$PIB_t^i = \alpha_2 \times \text{Accelerator Credit}_t^i + \beta_2 \times PIB_t^{EZ} + \gamma_2 \times RTL_t^i + C_{2i}$$

For our study GDP will act as the criterion variable and loan accelerator (long term loan flow for companies in restructuring procedures) will act as the predictor variable.

Based on this relationship we achieve a regression analysis, in which the dependent variable is the dynamic of GDP. The shape of the growth equation includes explanatory structural differences between the economies of CEE, captured by the fixed effects panel estimation. The purpose of the regression analysis that we perform is to describe the dependent variable (endogenous), using several independent variables (exogenous).

We assume that the relationship between the two categories of variables is linear. In this respect, the choice of a method of multiple linear regression analysis seems to be the most appropriate.

The study of the regression model is not intended to establish a cause-effect relationship between the variables involved in the model, but to highlight the links between them.

In the regression model we achieve a correlation analysis, which is in fact a procedure for determining the extent to which the relationship between variables is linear.

The information which formed the basis for assessing the impact of lending on the evolution of GDP, has covered the reference period 2007-2013. The main source of information used was represented by Eurostat.

As defined by Eurostat, gross domestic product (GDP) is a measure of economic activity, defined as the value of all goods and services produced less the value of any goods or services used in their creation. The calculation of the annual growth rate of GDP volume is intended to allow comparisons of the dynamics of economic development both over time and between economies of different sizes. To measure the growth rate of GDP in volume terms, GDP at current prices is estimated in the previous year's prices.

At the same time, to determine loans accelerator we have used data published by the National Bank of Romania for companies in restructuring procedures. All the data used for companies in restructuring procedures were obtained by summing up the data for each category of restructuring (reorganization, insolvency, bankruptcy). Credit accelerator for each year was calculated as the first order difference of annual credit flow for this category of companies and expressed as a share of GDP.

After processing the data in SPSS, the analysis reflects the existence of correlations between the selected variables. It is thus evident the existence of direct proportionality between the rate of growth of GDP in Romania and the growth rate of GDP in the euro area, and the existence of reverse proportionality between the growth rate of GDP in Romania and accelerator credits for companies in restructuring procedures. The same relationship is present between GDP growth rate and

the interest rate for loans in euros. The strongest link we can guess is that between Romanian GDP growth and the dynamic of GDP in the euro area, as the value of the corresponding Sig. is significantly lower than 0.05.

Will require further analysis, determining coefficients of the regression equation in the context in which we admit that there are links between linear dependent variable (the GDP) and independent variables (accelerator loans to firms in restructuring procedures, long-term interest rates and dynamic GDP in the euro area).

The following table indicates the predictive quality of the model chosen.

TABLE-1 Model summary for selected variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.776(a)	.602	.205	4.21475
2	.747(b)	.559	.338	3.84539
3	.584(c)	.341	.209	4.20311
4	.000(d)	.000	.000	4.72647

Source: own calculations using SPSS for Windows

The value of 0.776 for R (correlation coefficient) and R Square (coefficient of determination) of 0.602 tell us in this respect, a high degree of predictive variables selected model. Correlation coefficient R with positive values confirms the existence of a positive relationship between the variables.

The resulting regression equation for the model used is as follows:

GDP growth = 18,112 - 2,674 * Credit accelerator + 0,650 * GDP dynamic euro zone - 2,124 * Long Term Interest Rate

The whole approach of analysis, conducted in a credit-based economy, highlighted the fact that the financial accelerator mechanism, financial markets and real economy influence each other on a permanent basis.

CONCLUSIONS

The resilience of a company and of an economy depends on the confidence they inspire to creditors. This sense of confidence determines a positive effect in terms of revenue. A decrease in confidence in the resilience of the companies that are in a position to restructure its business, attract increasing cost of credit and reduced access to credit. Consequently, the impact on the real economy could be a chain of bankruptcies of firms and social aspects.

This is the reason for a prudent approach, which means never underestimate the existing links between the economic situation of a company and state of the economy as a whole.

REFERENCES

- [1] D.C. Olteanu, Creditareasi instabilitatea economica. Studiu de sinteza, Academia Romana, Institutul de Cercetare Economice, Bucuresti, 2014 | [2] A. Iancu, Extinderea financiarizării și accentuarea fragilității sistemului financiar, Revista Studii Economice, 2010, www.studii-economice.ro | [3] E. Philip Davis and Mark R. Stone, Corporate Financial Structure and Financial Stability, IMF Working Paper, July, 2004 | [4] A. Iancu, Sinteză privind modelarea fragilității sistemului financiar, Revista Studii Economice, 2010, www.studii-economice.ro | [5] B. Bernanke, M. Gertler, S. Gilchrist, „The Financial Accelerator and the Flight to Quality”, 1996, www.jstor.org | [6] R. Constantinescu, Mainstream and Keynesism: - two doctrines, two methods, same ideas, 2011, online at <http://mpira.uni-muenchen.de/36130> | [7] B.G. Moinescu, Canalul creditului și soldul bugetar: evidente empirice din noile state membre ale Uniunii Europene,