Title of Paper: Is there evidence for the existence of a financial accelerator mechanism in the Portuguese manufacturing sector?

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ABSTRACT

In recent times, due to developments in the field of information economics, there was a rationalisation of the link between financial factors and fluctuations in economic activity (Bernanke et al., 1996, Gertler, 1988). An issue that has been highlighted is the possibility that fluctuations in economic activity can be induced (and/or amplified) by fragilities in a firm’s financial position – the so-called financial accelerator mechanism.

Based on this reasoning, this paper aims at contribute to the empirical literature on this issue by testing the following three hypotheses: (a) the financial position of a firm is a major determinant of its capital investment decisions; (b) the financial position of a firm is more important for firms that face higher information problems in financial markets; and (c) the financial position of a firm is even more important for firms that face higher information problems in financial markets at times of economic recession.

Aggregate data for sixteen industrial sectors, covering a period of time from 1990 to 2005, was used in the empirical study. This data was obtained from the Central Balance-Sheet Database of the Portuguese Central Bank. In this database, economic and financial information on Portuguese non-financial firms are included.

Key-words: Investment; Financing constraints; Financial Accelerator; Information problems; Balance sheet position.

JEL codes: E32; G31