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FINANCIAL LIQUIDITY - DETERMINANTS AND SPEED OF ADJUSTMENT: EVIDENCE FROM CENTRAL AND EASTERN EUROPE

Abstract:

Purpose

The purposes of the article are: (i) to identify the financial liquidity determinants at the firm, industry and country level, (ii) to examine whether firms follow target liquidity level and (iii) to determine the average speed of adjustment to this level.

Design/methodology/approach

The empirical study is based on statistical analysis of financial data of 13,513 firms from Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia in the years of 2012-2020.

Findings

The company size (positive impact), the company growth, tangibility, leverage and the cash flow (negative effect) have been detected as firm-specific liquidity determinants. The influence of industry-specific factors (positive impact of the average industry liquidity) and country-specific factors (positive impact of an unemployment and the access to credit) has been also found. The study has shown that industry-specific factors exert twice as wide an impact as country-specific determinants. The study has also provided the evidence that companies follow the target liquidity level with the speed of adjustment of 88% per year.

Originality

The study contributes to the literature by (i) providing strong evidence of the impact of firm-specific liquidity determinants identified in prior research, (ii) identifying new industry and country-specific determinants and their scope of influence on enterprises' liquidity (iii) detecting that companies in particular industry conduct similar short-term financial policy trying to find target level of the financial liquidity with relatively fast speed of adjustment.

Practical implications

The managers must pay attention that investment in fixed assets may cause difficulties in working capital management and adjustment of the liquidity to the target level may result in difficulties with maintaining its sufficient level. Policymakers should: (i) be aware that national regulations affect enterprises' liquidity twice as weak as industry conditions (ii) pay attention to the availability of bank loans and unemployment level.

Keywords:

working capital management, liquidity, determinants of liquidity, target liquidity, Central and Eastern Europe,

JEL Classification: M20, G32, G30