

THE IMPACT OF INFLATION AND OPERATING CYCLE ON THE CORPORATE CASH HOLDINGS IN SOUTH-EAST EUROPE

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Abstract: *This paper investigates the determinants of corporate cash holdings for a sample of 868 firms from ten South-East European countries (Bosnia and Herzegovina, Bulgaria, Montenegro, Croatia, Greece, Romania, Macedonia, Slovenia, Serbia and Turkey). More specifically, we investigate the influence of the inflation and the corporate operating cycle on the corporate cash holdings. Using company financial data and the country CPI for the period 2006-2015, we apply a balanced panel regression model involving the yearly change of the cash ratio as a dependent variable, and country CPI, operating cycle and other firm-specific control variables as explanatory variables. Results confirm that inflation rate and operating cycle have both strong influence on the change of corporate cash holdings also in the region. The relationship of the change in cash and the inflation is non-linear and best described by a U-shaped curve. That means that corporate cash holding decreases as the level of inflation increases to a critical point but beyond that the cash holding starts to increase. At the same time, we identified a straight linear relationship between the change in cash holdings and the length of the operating cycle. Also, we found that the change in the corporate cash holdings is positively related to the size of the company, the operating cash flow and the capital expenditures. In addition, it is inversely associated with both the change of the net working capital and the change of short and long-term debt.*

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Key words: *CPI, liquidity, working capital, panel regression*

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