Real driver of trade credit

Abstract

Employing unique data from a corporate survey on measures adopted by firms to cope with exogenous shocks, this paper examines whether real and/or financial measures drive the changes in the amount of firms' trade debt. We find that firms that reduced the quantity of their purchases (a real measure) reduced their trade debt, while those that lengthened the duration of accounts payable (a financial measure) increased their trade debt. We also find that the real measure was adopted by a larger number of firms than the financial measure. These findings imply that the *real driver* of the changes in the amount of trade credit is the changes in the amount of underlying real transactions, and not the changes in the terms of the credit. Our findings urge a caution for existing studies that do not fully take into account the limit of trade credit imposed by the volume of real transactions.

Keywords: Trade credit, real driver, means of financing, means of payment, real shock

JEL classification codes: G32, L14