The importance of being a multinational: Access to debt

Sarah Clifford, University of Oxford

Abstract

This paper investigates how multinational enterprises use their internal capital market. Specifically, we test whether access to internal group borrowing is important during economic downturns. Does the international reach of the multinational firm create more flexible access to credit, particularly in times of credit shortage? We combine multiple sources of entity level panel data and compare the debt patterns of affiliates of multinational enterprises to the patterns of fully domestic firms at the time of a credit supply shock.

We first document large differences in the financing patterns of multinational affiliates and domestic entities in response to the global financial crisis of 2008. Evidence shows that affiliates of multinational groups are able to take on more debt compared to domestic standalone firms with similar debt patterns before the crisis. We confirm in data on internal debt that this increase in credit is driven by group internal lending. Using a measure of national credit shortage, we confirm that this result is not a peculiarity of the global financial crisis, but a pattern that emerges more generally. These results raise level playing field concerns for policy makers.