

The Impact of Debt Maturity on the Relationship between Financial Leverage and Future Financing Constraints

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Abstract

Debt maturity influences debt overhang. This discourages making real investments for highly levered borrowers. Financing constraints affect firms' future investments in both developed and developing countries.

The prior literature pay less attention to the effect of debt maturity on the relation between leverage and financing. To fill this gap, this study aims to investigate the impact of debt maturity on the relationship between financial leverage and future financing constraints. In accordance with the main objective of the study, this analyzes the moderating role of short-term debt and the mediating role of future financing constraints in the relationship between financial leverage and future investment.

Financial leverage is used as the independent variable while investment used as the dependent.

At the same time financing constraints used as a mediator variable and short-term debt used as a moderator variable. The study used secondary data of 50 companies representing all the industries in CSE excluding banking and financial institutions covering the period of 2013 to 2020. Data were analyzed using regression and E-Views packages.

Since the results of the prior studies were paradoxical, this study will result in that the diversification of short-term debt (STD) to long-term debt (LTD) ratio is the reason for the contradictory results of previous studies. The results will give directions in order to make decisions regarding the investments and financing debts as this study address one of the most important issues in the capital market.

Key words: *Financing constraints, financial leverage, investment, short-term debt.*